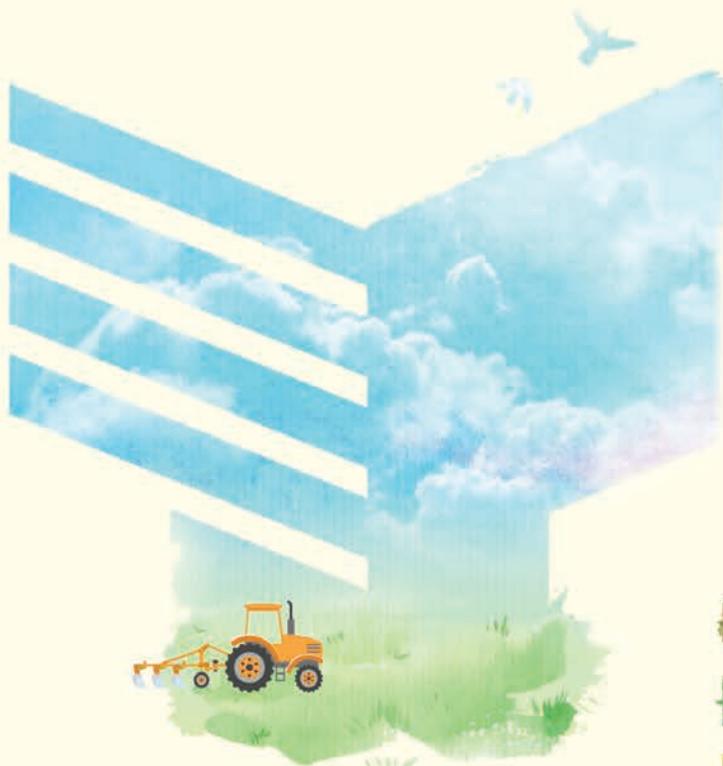




# 第一拖拉机股份有限公司 FIRST TRACTOR COMPANY LIMITED

(A joint stock company incorporated in The  
People's Republic of China with limited liability)  
(Stock Code: 0038.HK 601038.SH)



## 2 0 1 8 ANNUAL REPORT

## IMPORTANT NOTICE

I. The board of directors (the “Board”) and board of supervisors (the “Board of Supervisors”) of First Tractor Company Limited (the “Company”), and its directors (the “Directors”), supervisors (the “Supervisors”) and senior management confirm that there are no false information, misleading statements or material omissions contained in this Annual Report, and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents therein.

II. Directors absent at the meeting of the Board of the Company

Position of absent director	Name of absent director	Reason for absence	Name of proxy
Non-executive Director	Zhou Honghai	Business engagement	Wu Yong

III. Da Hua Certified Public Accountants (Special General Partnership) issued the standard unqualified audit report to the Company.

IV. Mr. Wu Yong (the person in charge of the Company), Mr. Liu Jiguo (the person in charge of the accounting function) and Ms. Zhou Juan (the person in charge of the Accounting Department and the accounting manager) have declared and confirmed the truthfulness, accuracy and completeness of the financial statements in the Annual Report.

V. Proposal of profit distribution or proposal of capitalization from capital reserves for the Reporting Period as considered by the Board.

As the Company recorded losses in terms of audited net profit for 2018, the board of directors of the Company has formulated a plan for not distributing annual profits according to the Articles of Association of the Company, and proposes not to distribute any cash dividend for the year. For details, please refer to the relevant dividend distributions in Section V “Significant Events” of this Annual Report.

VI. Statement for the risks involved in forward-looking statements

Forward-looking statements such as the development strategy and business plan of the Company contained in this Annual Report do not constitute any substantial commitment to investors by the Company. Investors are advised to pay attention to risks.

VII. Is there any misappropriation of funds not in the ordinary course of business by the controlling shareholders or its associates?

No.

VIII. Is there any external guarantee in violation of any established decision-making procedures?

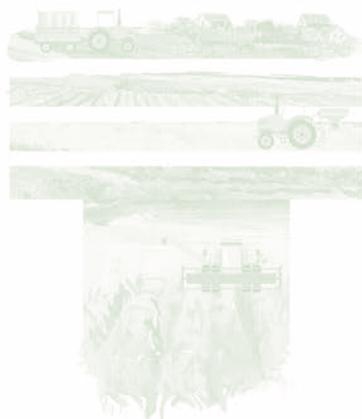
No.

IX. Significant risks warning

Please refer to “Management Discussion and Analysis” of this Annual Report for analysis and description of risks which may occur in management and future development of the Company concluded based on the industry and operation situation of the Company under the materiality principle.

# CONTENTS

Section I	Definitions . . . . .	2
Section II	Company Profile and Key Financial Indicators . . . . .	5
Section III	Overview of the Business of the Company . . . . .	12
Section IV	Management Discussion and Analysis . . . . .	16
Section V	Significant Events . . . . .	41
Section VI	Changes in Ordinary Shares and information on Shareholders . . . . .	69
Section VII	Preference Shares . . . . .	77
Section VIII	Directors, Supervisors, Senior Management and Employees. . . . .	78
Section IX	Corporate Governance . . . . .	93
Section X	Supplemental Information on Finance Business of the Company. . . . .	111
Section XI	Financial Statements. . . . .	113
Section XII	Documents Available for Inspection. . . . .	324



## DEFINITIONS

Unless the context otherwise requires, the following terms should have the following meanings in the Annual Report:

### DEFINITIONS OF COMMONLY USED TERMS

agricultural machinery	means	various machinery used in the crop farming and animal husbandry production, and the primary processing and treatment of agricultural and animal products
A Share(s)	means	ordinary share(s) as approved by the CSRC which are issued to domestic investors and qualified foreign investors, traded on the PRC domestic stock exchange, denominated, subscribed for and traded in RMB
auditor/accountant	means	the financial statement auditor, Da Hua Certified Public Accountants (Special General Partnership), appointed by the Company as the Company's auditor for the year of 2018
Bank of Luoyang	means	Bank of Luoyang Company Limited (洛陽銀行股份有限公司), an equity participating company of the Company
CAMACO	means	China-Africa Machinery Corp. (中非重工投資有限公司), a controlled subsidiary of the Company
CBIRC	means	China Banking and Insurance Regulatory Commission
Changtuo Company	means	Changtuo Agricultural Machinery Equipment Group Company Limited (長拖農業機械裝備集團有限公司), a controlled subsidiary of the Company
Changxing Company	means	Luoyang Changxing Agricultural Machinery Company Limited (洛陽長興農業機械有限公司), a wholly-owned subsidiary of the Company
controlled subsidiary	means	a company held as to more than 50% shares or equity interest by the Company, or a company actually controlled by the Company through agreement and arrangement
crawler tractor	means	tractor with crawler as walking device
CSRC	means	China Securities Regulatory Commission
diesel engine	means	internal combustion engine that uses diesel as fuel
Group	means	the Company and its controlled subsidiaries
hi-powered wheeled tractor	means	wheeled tractor with horsepower of 100 (inclusive) or above

## DEFINITIONS (CONTINUED)

H Share(s)	means	ordinary share(s) as approved by the CSRC which are issued to foreign investors, and listed with the approval of the Stock Exchange, denominated in RMB, subscribed for and traded in Hong Kong dollars
Listing Rules of the Shanghai Stock Exchange	means	Listing Rules of the Shanghai Stock Exchange (as amended from time to time)
Listing Rules of the Stock Exchange	means	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
mid-powered wheeled tractor	means	wheeled tractor with horsepower of 25 (inclusive) to 100
power machinery	means	products including diesel engine and fuel injection pump
Prospectus	means	Prospectus for the Initial Public Offerings of A Shares of First Tractor Company Limited prepared by the Company according to the relevant laws and regulations
Shanghai Stock Exchange	means	the Shanghai Stock Exchange
Sinomach	means	China National Machinery Industry Corporation (中國機械工業集團有限公司), the ultimate controlling shareholder of the Company
Stock Exchange	means	The Stock Exchange of Hong Kong Limited
subsidiary	means	a subsidiary as defined under the Listing Rules of the Stock Exchange
The Company/Company	means	First Tractor Company Limited (第一拖拉機股份有限公司)
Tractors Research Company	means	Luoyang Tractors Research Institute Company Limited (洛陽拖拉機研究所有限公司), a controlled subsidiary of the Company
Xinjiang Equipment Company	means	YTO (Xinjiang) Dongfanghong Equipment Machinery Company Limited (一拖(新疆)東方紅裝備機械有限公司), a wholly-owned subsidiary of the Company
Yangdong Company	means	Yangdong Company Limited (揚動股份有限公司), a controlled subsidiary of the Company
YTO	means	YTO Group Corporation (中國一拖集團有限公司), the controlling shareholder of the Company
YTO Belarus Technology	means	YTO Belarus Technology Company Limited (一拖白俄技術有限公司), a wholly-owned subsidiary of the Company
YTO Diesel Engine	means	YTO (Luoyang) Diesel Engine Company Limited (一拖(洛陽)柴油機有限公司), a controlled subsidiary of the Company

## DEFINITIONS (CONTINUED)

YTO Finance	means	China YTO Group Finance Company Limited (中國一拖集團財務有限責任公司), a controlled subsidiary of the Company
YTO Foundry and Forging	means	YTO (Luoyang) Foundry and Forging Company Limited (一拖(洛陽)鑄鍛有限公司), a wholly-owned subsidiary of the Company
YTO France	means	YTO France SAS (一拖法國農業裝備有限公司), a wholly-owned subsidiary of the Company
YTO Fuel Injection Pump	means	YTO (Luoyang) Fuel Injection Pump Company Limited (一拖(洛陽)燃油噴射有限公司), a controlled subsidiary of the Company
YTO Heilongjiang	means	YTO Heilongjiang Agricultural Equipment Co., Ltd. (一拖黑龍江農業裝備有限公司), a wholly-owned subsidiary of the Company
YTO International Trade	means	YTO International Economy and Trade Company Limited (一拖國際經濟貿易有限公司), a wholly-owned subsidiary of the Company
YTO Shentong	means	YTO (Luoyang) Shentong Construction Machinery Company Limited (一拖(洛陽)神通工程機械有限公司), a wholly-owned subsidiary of the Company
YTO Transportation	means	YTO (Luoyang) Transportation Machinery Company Limited (一拖(洛陽)搬運機械有限公司)
ZF YTO Drive Axle	means	ZF YTO (Luoyang) Drive Axle Company Limited (采埃孚一拖(洛陽)車橋有限公司), an equity participating company of the Company

# COMPANY PROFILE AND KEY FINANCIAL INDICATORS

## I. INFORMATION OF THE COMPANY

Chinese name of the Company	第一拖拉機股份有限公司
Abbreviation in Chinese	一拖股份
English name of the Company	First Tractor Company Limited
Abbreviation in English	First Tractor
The person in charge of the Company	Wu Yong

## II. CONTACT PERSONS AND METHODS

	<b>Secretary to the Board</b>	<b>Representative of Securities Affairs</b>
Name	Yu Lina	Wei Yajun
Contact address	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Telephone	(86 379) 6496 7038	(86 379) 6497 0213
Facsimile	(86 379) 6496 7438	(86 379) 6496 7438
E-mail	yulina@ytogroup.com	weiyajun027@163.com

## III. INTRODUCTION OF BASIC INFORMATION

Registered address of the Company	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Postal code of the registered address of the Company	471004
Office address of the Company	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Postal code of the office address of the Company	471004
Website of the Company	<a href="http://www.first-tractor.com.cn">http://www.first-tractor.com.cn</a>
E-mail	mssc0038@ytogroup.com

## COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

### IV. PLACE FOR INFORMATION DISCLOSURE AND DOCUMENTS INSPECTION

Name of newspapers designated by the Company for dissemination of information	“China Securities Journal” and “Shanghai Securities News”
Website for publication of the annual report as designated by the CSRC	www.sse.com.cn
Website for publication of the annual report as designated by the Hong Kong Stock Exchange	www.hkex.com.hk
Place for inspection of the annual report (report for A Shares)	Office of the Board of the Company
Place for inspection of the annual report (report for H Shares)	Li & Partners, 22/F, World-Wide House, Central, Hong Kong

### V. BASIC INFORMATION OF SHARES OF THE COMPANY

#### Basic Information of Shares of The Company

Type	Stock exchange for listing	Abbreviation of shares	Stock code	Abbreviation of shares prior to the change
A Share	Shanghai Stock Exchange	一拖股份	601038	/
H Share	Stock Exchange	First Tractor	00038	/

### VI. OTHER RELATED INFORMATION

Auditor of the Company (the PRC)	Name	Da Hua Certified Public Accountants (Special General Partnership)
	Office address	Unit 1101, Bldg 7, No.16 Xi Si Huan Zhong Road, Haidian District, Beijing
	Names of the signing accountants	Yu Fanghong, Lin Haiyan

## COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

### VII. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE LATEST THREE YEARS

#### (I) Key Accounting Data

*Unit: Yuan Currency: RMB*

Key accounting data	2018	2017	Increase/Decrease during the Reporting Period as compared with the corresponding period last year (%)	2016
Total operating revenue	<b>5,681,547,536.68</b>	7,357,944,190.89	-22.78	8,871,153,114.15
Operating revenue	<b>5,540,998,393.26</b>	7,219,310,386.11	-23.25	8,687,502,227.41
Net profit attributable to shareholders of the Company	<b>-1,300,108,773.92</b>	56,514,222.97	-2,400.50	223,369,729.35
Net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	<b>-1,389,633,309.35</b>	-123,062,354.20	N/A	161,857,993.74
Net cash flows from operating activities	<b>-384,397,747.85</b>	-556,313,931.89	N/A	2,093,174,716.44

	As at the end of 2018	As at the end of 2017	Increase/Decrease as at the end of The Reporting Period as compared with the end of the corresponding period last year (%)	As at the end of 2016
Net assets attributable to shareholders of the Company	<b>4,007,081,663.62</b>	4,797,305,395.91	-16.47	4,829,340,535.85
Total assets	<b>13,140,741,755.99</b>	14,102,773,527.68	-6.82	13,210,513,281.43

## COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

### (II) Key Financial Indicators

Currency: RMB

Key Financial Indicators	2018	2017	Increase/ Decrease during the Reporting Period as compared with the Corresponding period last year (%)	2016
Basic earnings per share (RMB/share)	<b>-1.3188</b>	0.0572	-2,405.59	0.2245
Diluted earnings per share (RMB/share)	<b>-1.3188</b>	0.0572	-2,405.59	0.2245
Basic earnings per share after deduction of non-recurring profit or loss (RMB/share)	<b>-1.4096</b>	-0.1246	N/A	0.1627
Weighted average return on net assets (%)	<b>-27.91</b>	1.17	Decreased by 29.08 percentage points	4.69
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	<b>-29.84</b>	-2.56	Decreased by 27.28 percentage points	3.40

Explanation on the key accounting data and financial indicators of the Company for the latest three years as at the end of the Reporting Period

During the Reporting Period, affected by various factors, the tractor market continued the downward trend since last year. The sales volume of the major products of the Company decreased significantly. In response to the market downturn, the Company adopted corresponding promotional measures, but its operating revenue still decreased by 23.25% year-on-year. In addition, the prices of raw materials such as steel remained high, and the gross profit of the Company decreased significantly; the decrease in selling prices of some products led to the increase in inventory impairment provisions of the Company. During the Reporting Period, the Company actively promoted the disposal of low-efficiency and inefficient assets and the governance of loss-making business, and implemented the organizational optimization and streamlining and personnel reduction and reposition, resulting in a year-on-year increase in the provision for termination benefits. The above factors resulted in a loss of RMB1.3 billion in the Company's net profit attributable to shareholders of the parent company for 2018, and earnings per share fell sharply with a turnaround from positive to negative.

## COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

### VIII. KEY QUARTERLY FINANCIAL INDICATORS IN 2018

*Unit: Yuan Currency: RMB*

	Q1 (January– March)	Q2 (April–June)	Q3 (July– September)	Q4 (October– December)
Operating revenue	2,322,580,812.33	1,186,837,153.16	1,324,273,514.96	707,306,912.81
Net profit attributable to shareholders of the Company	47,951,154.70	-192,931,036.35	-251,985,491.02	-903,143,401.25
Net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	46,922,905.76	-278,304,798.75	-286,610,923.21	-871,640,493.15
Net cash flows from operating activities	-626,669,095.78	144,249,866.84	93,905,928.81	4,115,552.28

### IX. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

*Unit: Yuan Currency: RMB*

Non-recurring profit or loss items	Amounts in 2018	Note (as applicable)	Amounts in 2017	Amounts in 2016
Profit or loss from disposal of non-current assets	<b>196,944.39</b>		2,318,017.87	-9,165,962.45
Government grants credited to current profit or loss (except for those which are closely related to the Company's ordinary business, in accordance with the PRC national policies and continuously received in certain standard amounts and quantities)	<b>61,973,166.77</b>		92,652,577.65	41,413,541.72
Gain or loss from debt restructuring	<b>6,036,908.58</b>		-1,091,366.39	671,843.19
Net profit or loss for the Reporting Period from subsidiaries arising from business combination involving entities under common control from the beginning of the period to the date of consolidation	<b>0</b>		-1,099,244.09	0
Profit or loss from changes in fair value arising from holding held-for-trading financial assets and held-for-trading financial liabilities, and investment income from disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets (except for effective hedging business related to the Company's ordinary business)	/		-1,878,085.90	39,090,268.83

## COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

Non-recurring profit or loss Items	Amounts in 2018	Note (as applicable)	Amounts in 2017	Amounts in 2016
Investment income arising from gain or loss resulted from changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities, and disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments (except for effective hedging business related to the Company's ordinary business)	<b>26,096,432.63</b>		/	/
Non-operating income and expenses other than those stated above	<b>4,899,658.46</b>		11,865,066.15	4,453,061.78
Other profit and loss items that meet the definition of non-recurring profit or loss Items	<b>0</b>		94,994,451.25	0
Impact on minority shareholders equity interests	<b>-4,460,021.31</b>		-8,699,457.27	-5,657,014.73
Effects on income tax	<b>-5,218,554.09</b>		-9,485,382.10	-9,294,002.73
Total	<b>89,524,535.43</b>		179,576,577.17	61,511,735.61

## X. ITEMS UNDER FAIR VALUE MEASUREMENT

*Unit: Yuan Currency: RMB*

Items	Balance as at the beginning of the Reporting Period	Balance as at the end of the Reporting Period	Change during the Reporting Period	Amount affecting profit for the Reporting Period
Derivative financial assets	0	<b>578,743.73</b>	578,743.73	578,743.73
Derivative financial liabilities	12,800,000.00	<b>2,727,592.84</b>	-10,072,407.16	10,072,407.16
Trading financial assets	924,502,397.15	<b>897,235,968.16</b>	-27,266,428.99	11,745,473.40
Total	937,302,397.15	<b>900,542,304.73</b>	-36,760,092.42	22,396,624.29

## COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

### XI. FINANCIAL SUMMARY OF THE COMPANY FOR THE LATEST FIVE YEARS

#### (I) Results

*Unit: 0'000 Currency: RMB*

Items	2018	For the year ended 31 December			
		2017	2016	2015	2014
Total operating revenue	<b>568,155</b>	735,794	887,115	965,549	902,698
Total profit	<b>-131,475</b>	5,606	28,010	22,168	21,189
Income tax expense	<b>5,022</b>	1,835	5,421	8,262	4,766
Net profit	<b>-136,497</b>	3,771	22,589	13,905	16,423
Net profit attributable to shareholders of the parent company	<b>-130,011</b>	5,651	22,337	13,532	16,770
Profit or loss attributable to minority shareholders	<b>-6,486</b>	-1,880	252	373	-347

#### (II) Assets, liabilities and shareholders' equity interests

*Unit: 0'000 Currency: RMB*

Items	2018	For the year ended 31 December			
		2017	2016	2015	2014
Total assets	<b>1,314,074</b>	1,410,277	1,321,051	1,327,245	1,235,569
Total liabilities	<b>848,467</b>	866,379	770,687	787,387	703,487
Total shareholders' equity interests	<b>465,608</b>	543,898	550,364	539,858	532,082
Total amount attributable to shareholders' equity interests of the parent company	<b>400,708</b>	479,730	482,934	467,388	459,347
Minority shareholders equity interests	<b>64,899</b>	64,168	67,430	72,470	72,735

The financial summary of the Company for the latest five years are financial data prepared under the PRC Accounting Standards for Business Enterprises.

### XII. DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2018, calculated in accordance with the applicable laws in the PRC, the Company's place of incorporation, amounted to RMB493,080,403.24 and the capital surplus – equity premium was RMB1,851,848,375.56.

## OVERVIEW OF THE BUSINESS OF THE COMPANY

### I. EXPLANATION ON THE PRINCIPAL BUSINESSES, OPERATION MODES AND INDUSTRY OF THE COMPANY DURING THE REPORTING PERIOD

#### (I) Principal Businesses

Over the years, in adherence to the business development strategy of focus on principal business and moderate diversification, the Company is committed to providing agricultural equipment with advanced technology and reliable quality for mechanization of the PRC agricultural industry. The Company's principal businesses include research and development, manufacturing and sales of agricultural machinery, power machinery and their spare parts. YTO Finance, a controlled subsidiary of the Company, has mainly engaged in the business of fund settlement, fund raising and financing and other financial services among the member companies of the Group, as well as the provision of financial service support for the product sales of the Company. During the Reporting Period, there was no major change to the principal businesses of the Company.

**Agricultural Machinery Business:** The business includes research and development, manufacturing and sales of the whole series of wheeled and crawler tractors adaptable to different working environments such as dry fields, paddy fields and orchards, and their key components including castings, gears, gear boxes and cover that are used in agricultural production.

**Power Machinery Business:** The products include off-road diesel engines with displacement of 2L to 12L and power output of 10KW to 405KW and their accessory parts including fuel injection pump and fuel injector. The products are mainly matching agricultural machinery, such as tractors and harvesters, and accessories of construction machinery, low-speed vehicles, vessels and power generators.

**Finance Business:** YTO Finance, a controlled subsidiary of the Company, is a non-bank financial institution approved by the CBIRC. It provides members of the corporate group with services within the scope approved by the CBIRC, such as fund settlement, deposit and loan, bills, and conducts financial leasing business for the Company's product sales and investment businesses in compliance with the requirements of regulators.

## OVERVIEW OF THE BUSINESS OF THE COMPANY (CONTINUED)

### (II) Key Operation Modes

During the Reporting Period, there was no major change to the key operation modes of the Company.

**Product Research and Development:** The Company adopts a two-tier model for research and development to combine the Company's research and development center with subsidiaries and professional factories. The research and development center of the Company is responsible for the strategic development of the Company and the research and development for significant product improvement. When the research products were approved to be mature by the market, the products would be manufactured by subsidiaries and professional factories. On such basis, the subsidiaries and professional factories would improve and perfect the product adaptability according to market needs, in order to fulfill requirements of different market segments.

**Procurement Mode:** The Company adopts a model combining collective centralized procurement and collective decentralized procurement. For main raw materials and components (such as steel, pig iron, tire and bearing) with high demand and generic in nature in the production process, collective centralized procurement would be adopted so as to take full advantage of economies of scale. On the other hand, collective decentralized procurement would be adopted for differentiated raw materials and components required by each operating unit based on its needs.

**Production Mode:** The Company manufactures and operates through mass production in assembly lines, including the production of mass generic products and customized products. The agricultural machinery products of the Company reasonably arranges its production plans and organizes production according to market forecasts, market sales, information on product demand reflected by dealers and users and the seasonal features of sales of the Company's products. The power machinery products of the Company are mainly supplied through execution of annual supply contracts entered into between main unit manufacturers and the Company, with production arranged and organized according to the demand plans and the specific orders.

**Sales Mode:** The agricultural machinery products of the Company are mainly sold by dealers of the Company in domestic market by ways of cash on delivery and general credit sales. For dealers which have long cooperative relationship with the Company and good credit, the Company will give a certain credit limit and make annual evaluation and adjustment according to the credit situation. Our PRC sales network currently covers all 31 provinces, autonomous regions and municipalities in the mainland China PRC. As for the international market, the Company is establishing and improving its sales and service network step by step according to the progress of its business development. Currently, the overseas sales markets mainly include South America, Africa, Southeast Asia and countries and regions along the Belt and Road. Overseas sales are mainly conducted through project sales such as government procurement, and by other local dealers. Power machinery products are mainly supplied to be accessory for main unit manufacturers, mostly by direct sale.

## OVERVIEW OF THE BUSINESS OF THE COMPANY (CONTINUED)

### (III) Industry Development

Since the low-pace operations in 2017, the agricultural machinery industry has continued profound adjustment in 2018. The annual growth rate of the main business income of agricultural machinery enterprises above designated size was expected to be around 1%. After years of rapid growth, the tractor market has a large ownership volume and the momentum from new market demand is insufficient, and the tractor market has shifted from the “increment market” to the “stock market”. Affected by various factors such as increased ownership volume and decreased grain producing and operating income, market demand for products such as hi-powered and mid-powered tractors, and harvesters for staple crops such as wheat, corn and rice continued to be sluggish. In 2018, the industrial sales volume of hi-powered and mid-powered tractors decreased by 20.8% year-on-year.

## II. EXPLANATION ON MATERIAL CHANGES IN THE MAIN ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

As at the end of the Reporting Period, total assets of the Company amounted to RMB13.1407418 billion. Original value of fixed assets amounted to RMB6.6355483 billion, representing an increase of RMB190.4994 million as compared with that of 2017, of which newly added fixed assets amounted to RMB242.9201 million, mainly due to the transfer into and increase in fixed assets after completion and production of projects such as the application for the new model of new-type intelligent manufacturing of wheeled tractors of the Company.

As at the end of the Reporting Period, assets outside the PRC was RMB223.0828 million, accounting for 1.70% of the total assets.

## OVERVIEW OF THE BUSINESS OF THE COMPANY (CONTINUED)

### III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The Company strived to enhance its core competitiveness, accelerate product technology upgrades, improvement in manufacturing capacity and innovation and reform on marketing and service model with an aim to continuously improve its research and development and manufacturing capabilities for core products and service capabilities over whole life cycle of the products.

**In respect of technical research and development**, the Company possesses the leading tractor product technology and a full range of product series in the industry. The Company is a domestic leader in terms of power-shift and variable transmission technology for tractors, as well as electronic control technology for overall units and parts, and has the most complete range of tractor product series in the PRC. The Company has the leading independent innovation capability in the industry as evidenced by its National Level Corporate Technical Center certified by the national authorities in the first batch and the most advanced pilot bases in the PRC. In addition, the National Key Laboratory for Tractor Power Systems and the National Center for the Quality Supervision and Testing of Tractors are set up in the Company.

**In respect of manufacturing**, the Company has the most comprehensive manufacturing system for key spare parts in the PRC tractor industry and possesses the capabilities for manufacturing vehicle body, forged parts, castings, gears and other key components of tractors. In 2018, the project of “the application for the new model of new-type intelligent manufacturing of wheeled tractors”, being the first large-scale intelligent manufacturing digital factory for agricultural machineries in the PRC, successfully passed the completion acceptance by the Ministry of Industry and Information Technology. The intelligent cockpit digital factory was put into trial operation, marking the further improvement in cab quality assurance capability and flexible production capacity, in which welding, painting and assembly digital equipment are installed, realizing robotic operations in the process of cutting, welding, painting, etc., signifying that the manufacturing process of the Company has reached international leading level. The intelligent assembly line for diesel engines was completed and put into production, which has the capacity of manufacturing diesel engine products which are in line with the National IV and V emission standards.

## MANAGEMENT DISCUSSION AND ANALYSIS

### I. MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, the core enterprises in the agricultural machinery industry sold a total of 179,800 units of hi-powered and mid-powered tractors, representing a year-on-year decrease of 20.8% and only accounting for about 50% of that in 2013, due to the combined effect of various factors, such as the increase in social tractor ownership volume, decrease in operating income of users, prolonged investment payback period, and rising horsepower of products but reduction in total demand. As a core enterprise in the domestic tractor industry with a history of more than 60 years, First Tractor was also encountering the most challenging business situation since entry into the new century. Although the Company actively took measures by capturing the domestic and overseas markets externally, and internally promoting technology and manufacturing upgrades and implementing operational changes and facilitating internal resource integration, it still failed to reverse the unfavorable business situation. During the Reporting Period, sales of main products of the Company decreased significantly, achieving a total annual operating revenue of RMB5.682 billion, representing a year-on-year decrease of 22.78%; while the operating costs remained high, and the product profit margin dropped sharply. As a result, the Company's operating results in 2018 turned from profit to loss, and the net profit attributable to the shareholders of the Company was a loss of RMB1.3 billion.

#### (I) Sparing no pains to cope with the continuous decrease in the market

Tractor business. In response to the continuous sluggish market demand and the disordered competition in the tractor market, the Company adjusted marketing model to accelerate market response during the Reporting Period. In the domestic market, the Company was the first to make a service undertaking to provide "arrival within 6 hours" and "well-repaired within 12 hours" service to the industry according to market demand and endeavoured to improve service guarantee capabilities with an aim to enhance customer satisfaction with the "Dongfanghong" products. Meanwhile, the Company adopted product promotion measures in some regions according to market conditions. In the international market, the Company strengthened overseas marketing, international trade and project operation in key regional markets, and achieved breakthroughs in sales in key markets such as Ukraine and Kazakhstan, with a year-on-year growth of 107% and 41%, respectively. However, the above measures did not completely curb the decline in sales, the Company sold 37,740 units of hi-powered and mid-powered tractors during the Reporting Period, representing a year-on-year decrease of 21.8%, and realizing an operating revenue of RMB5.086 billion (before inter-segment elimination) from agricultural machinery and related components business, representing a year-on-year decrease of 22.6%.

Power machinery business. Affected by the significant decline in the accessories of agricultural machinery market, the Company sold 80,590 units of diesel engines in 2018, representing a year-on-year decrease of 22.2%, and realizing an operating revenue of RMB1.299 billion (before inter-segment elimination), representing a year-on-year decrease of 27.7%. In the circumstance of severe decline in demand for accessories of agricultural machinery, the Company actively sought breakthroughs in segment markets and continuously developed the accessories of construction machinery and ship market. Meanwhile, through actively promoting the technology research and development and switch of National IV standard off-road products, the Company completed the overall unit development of 24 series of National IV standard tractors (including 56 models) in 2018, making full preparation for the switch of National IV standard.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial business. During the Reporting Period, in adherence to the operation philosophy of “relying on the group, serving members, operating steadily, and innovating development”, YTO Finance fully leveraged the financial service function, and aggregated idle funds from the member units to form a “fund pool” with an aim to adjust the fund surplus and deficit between the units, strive to reduce the Company’s capital costs and improve its capital usage efficiency. The Company actively carried out financial leasing business for its products to provide support for the Company’s product sales. During the Reporting Period, the Company sold more than 1,000 units of tractor products under the financial support.

### **(II) Adhering to technology and manufacturing upgrades to lay a firm foundation for transformation and development**

In 2018, the upgrades and localization of the new generation of power shift tractors were further pushed ahead, ensuring that the Company has always maintained a leading position in the core technology of its main products. YTO Belarus Technology, being the Eastern European R&D center located at the Sino-Belarusian industrial park in the Republic of Belarus has commenced operation, signifying a significant step towards the Company’s technological development in line with international standards, branching out into the markets covered by “Belt and Road” Initiative, and the pursuit of international production capacity cooperation. The integration of the new generation of information technology with advanced manufacture progressed smoothly, which was reflected by the facts that the “Dongfanghong” driverless tractor developed by the Company appeared on CCTV’s “Machine-made Excellence (機智過人)” program and attracted extensive attention in the society; and products equipped with Beidou intelligent terminals have been introduced to the market on a large scale.

In 2018, the intelligent transformation of equipment of the Company began to take shape, and the completion of certain key construction projects, such as the intelligent manufacturing assembly line for diesel engines which is in line with the National IV environmental emission standards for off-road diesel engines, the intelligent cockpit digital factory for modern agricultural equipment, the application for the new model of new-type intelligent manufacturing of wheeled tractors, manifested the further enhanced core manufacturing capabilities of the Company. The completion of certain projects, such as the transformation of assembly line for over 140 horsepower heavy-duty tractors, hydraulic lifting of hi-powered and mid-powered wheeled tractors, optimization and improvement of the assembly line for mid-powered wheeled tractors, and enhancement of core parts manufacturing process, effectively improved the manufacturing capacity and production efficiency of the Company, providing a strong support for corporate transformation of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **(III) Reinforcing management to strive to improve economic quality**

During the Reporting Period, with focus on highlighting business and strengthening functional support, the Company completed the management reform of “strategic control + platform support”. In particular, the Company further streamlined the organization and optimized the process, and carried out staff reposition and reduction in response to the decline in the business scale of the Company, thereby reducing the operating costs, but the staff reposition and reduction also led to a significant increase in the provision for termination benefits of the Company for 2018, affecting the operating performance for the current period to some degree.

By taking certain measures such as design cost re-evaluation, optimization of product configuration, component improvement, and process enhancement, the Company managed to promote cost reduction in a technical manner. The Company continuously optimized the supplier resources and established strategic partnerships with quality suppliers, further improving the procurement network. In addition, the Company promoted lean management using industrial engineering methods, and made certain achievements in increasing production efficiency, reducing costs and improving quality.

Upholding the principle of forming synergy, optimizing resource allocation and improving management efficiency, the Company completed the resource integration of forging and casting business and Yangdong Company during the Reporting Period. In addition, the Company actively promoted the governance and clean-up of loss-making business. During the year, the equity interests held by the Company in YTO Transportation and Changtuo Company were publicly listed for transfer, and the transfer of the equity interest in YTO Transportation was completed in March 2019.

The Company enhanced the control on the percentage of accounts receivable and inventory in total assets. While prudently assessing the risks of accounts receivable and inventory and making provision for corresponding impairment, the Company also strengthened the whole process control over accounts receivable and put more effort to collect overdue accounts receivable legally.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### II. MAIN OPERATING SITUATION DURING THE REPORTING PERIOD

Please refer to “I. Management Discussion and Analysis” of this section.

#### (I) Analysis on principal business

##### 1. Analysis on Changes in Items of the Income Statement and the Cash Flow Statement

Unit: Yuan Currency: RMB

Items	For the Reporting Period	For the corresponding period of last year	Changes (%)
Operating revenue	<b>5,540,998,393.26</b>	7,219,310,386.11	-23.25
Operating costs	<b>5,098,425,607.81</b>	6,036,004,631.87	-15.53
Interest revenue	<b>138,092,137.95</b>	137,931,789.75	0.12
Interest costs	<b>12,455,994.16</b>	15,819,471.26	-21.26
Selling costs	<b>461,866,175.50</b>	436,011,715.40	5.93
Administrative expenses	<b>764,198,051.29</b>	503,321,348.16	51.83
Research and development expenses	<b>378,394,140.28</b>	386,339,439.17	-2.06
Finance costs	<b>105,047,052.79</b>	73,123,501.81	43.66
Asset impairment loss	<b>172,393,654.35</b>	42,454,747.85	306.06
Loss of credit impairment	<b>59,449,904.60</b>		N/A
Gain from change in fair value	<b>10,081,083.66</b>	-25,447,931.82	N/A
Investment income	<b>19,158,702.59</b>	156,910,636.73	-87.79
Income tax expenses	<b>50,221,900.25</b>	18,345,015.80	173.76
Net cash flow generated from operating activities	<b>-384,397,747.85</b>	-556,313,931.89	N/A
Net cash flow generated from investing activities	<b>-546,269,548.64</b>	-308,423,718.05	N/A
Net cash flow generated from financing activities	<b>-734,842,075.84</b>	918,985,309.04	-179.96

**Operating revenue and operating costs:** decreased by 23.25% and 15.53% as compared with the corresponding period of last year, respectively, mainly because the sales of main products of the Group decreased, raw material prices remained high, and the relatively smaller decrease in the Company’s depreciation, amortization of intangible assets and other fixed expenses including maintenance costs, leading to the decrease in operating costs being lower than that of operating revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Interest revenue and interest costs:** during the Reporting Period, the Company's interest revenue was basically the same as that of the corresponding period of last year, while interest costs decreased by 21.26%, mainly due to the changes in the structure of deposits absorbed by YTO Finance and the resulting reduction in interest paid.

**Asset impairment loss and loss of credit impairment:** increased by RMB189 million or 446.10% as compared with the corresponding period of last year, mainly because affected by the downturn of the overall tractor market, the Company adopted price-off promotions, and made provision for inventory revaluation based on the difference between the net realizable value and the cost of the inventory, resulting in a significant increase in inventory impairment losses during the Reporting Period. In addition, in the lawsuit filed by the Company against Wuhan Guoyu Logistics Industry Group Co., Ltd. for its default on short-term financing bonds, the defendant currently has no executable property, such bonds were re-identified as creditor's rights categorized as loss which were fully provisioned for impairment at the end of the Reporting Period.

**Gain from change in fair value:** increased by RMB35.53 million as compared with the corresponding period of last year, mainly due to the appreciation of the US dollar against RMB during the Reporting Period, the revenue generated from the Company's lock exchange of US dollar loan and swap agreements increased significantly by RMB38.28 million year-on-year.

**Investment income:** decreased by 87.79% as compared with the corresponding period of last year, mainly due to the decrease in investment income from disposal of subsidiaries and financial assets during the Reporting Period as compared with last year.

**Income tax expenses:** increased by 173.76% as compared with the corresponding period of last year, mainly due to the release of deferred income tax assets recognized for the deductible losses for previous years of YTO France this year.

### 2. *Income and cost analysis*

During the Reporting Period, the Company realized an operating revenue of RMB5,541 million, representing a decreased of 23.25% as compared with the corresponding period of last year, mainly due to the decreased sales volume of a variety of products of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(1) *Principal businesses by industry, by products and by region*

*Unit: 0'000 Currency: RMB*

### Principal business by industry

By industry	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year (%)
Equipment manufacturing industry	554,100	509,843	7.99	-23.25	-15.53	Decreased by 8.40 percentage points

### Principal businesses by products

By products	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year (%)
Agricultural machinery	508,600	473,816	6.84	-22.58	-15.64	Decreased by 7.66 percentage points
Power machinery	129,968	120,915	6.97	-27.65	-22.60	Decreased by 6.07 percentage points
Other machinery	1,125	705	37.35	-58.15	-76.64	Increased by 49.56 percentage points
Inter-segment elimination	-85,593	-85,593	/	/	/	/
Total	554,100	509,843	7.99	-23.25	-15.53	Decreased by 8.40 percentage points

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## Principal businesses by region

By region	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year (%)
In the PRC	486,874	454,043	6.74	-26.37	-17.90	Decreased by 9.61 percentage points
Outside the PRC	67,226	55,800	17.00	10.71	10.41	Increased by 0.23 percentage point

## (2) Analysis on production and sales volume

Main Products	Production volume	Sales volume	Inventories	Increase/decrease in production volume as compared with last year (%)	Increase/decrease in sales volume as compared with last year (%)	Increase/decrease in inventories as compared with last year (%)
Tractor products	39,002	37,799	1,926	-19.33	-22.42	166.39
Diesel engine products	82,531	80,590	14,310	-23.39	-22.18	15.69
Other mechanical products	56	34	28	-49.09	-70.94	366.67

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## (3) Cost analysis

Unit: 0'000 Currency: RMB

## By industry

By industry	Cost items	Amount for the Reporting Period	Amount for the Reporting Period as a percentage of total costs (%)	Amount for the corresponding period of last year	Amount for the corresponding period of last year as a percentage of total costs (%)	Changes in the amount for the Reporting Period as compared with the corresponding period of last year (%)	Explanation
Equipment manufacturing industry	Material	492,677	82.74	609,017	84.48	-19.10	
Equipment manufacturing industry	Labour	40,330	6.77	46,073	6.39	-12.47	
Equipment manufacturing industry	Production costs	62,429	10.48	65,814	9.13	-5.14	

## By products

By products	Cost items	Amount for the Reporting Period	Amount for the Reporting Period as a percentage of total costs (%)	Amount for the corresponding period of last year	Amount for the corresponding period of last year as a percentage of total costs (%)	Changes in the amount for the Reporting Period as compared with the corresponding period of last year (%)	Explanation
Agricultural machinery	Material	393,787	83.11	476,000	84.75	-17.27	
Agricultural machinery	Labour	31,560	6.66	34,518	6.14	-8.57	
Agricultural machinery	Production costs	48,469	10.23	51,156	9.11	-5.25	
Power machinery	Material	98,205	81.22	130,355	83.45	-24.66	
Power machinery	Labour	8,762	7.25	11,469	7.34	-23.60	
Power machinery	Production costs	13,948	11.54	14,390	9.21	-3.07	
Other machinery	Material	685	97.16	2,662	88.26	-74.27	
Other machinery	Labour	8	1.13	86	2.85	-90.70	
Other machinery	Production costs	12	1.70	268	8.89	-95.52	

Note: This table contains data before inter-segment elimination.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Agricultural machinery:** the decrease in the sales volume of hi-powered and mid-powered wheeled tractors being our main products resulted in a decrease in each cost component in 2018. In particular, due to the increase in the prices of main raw materials including raw iron and steel, the overall decline in material costs was lower than the decline in sales revenue. Labour and manufacturing costs were relatively rigid, thus the effect of staff reduction and efficiency improvement was difficult to be reflected in the current year, and meanwhile the decline in labour and manufacturing costs was far lower than the decline in sales revenue.

**Power machinery:** the decrease in the sales volume of power machinery products led to a decrease in material costs in 2018. Labour and manufacturing costs were relatively rigid, thus the effect of staff reduction and efficiency improvement was not reflected in the current year.

**Other machinery:** in response to the shrinking sales volume of other machinery in 2018, the Company transformed and restructured this business segment, integrated its resources and substantially reduced staff, leading to a significant decrease in labour and manufacturing costs.

### (4) Information on major customers and major suppliers

Sales to the top five customers amounted to RMB427.78 million, accounting for 7.72% of the total sales for the year, among which, sales to the top five customers which were sales to related parties amounted to RMB121.32 million, accounting for 2.19% of the total sales for the year.

Procurement from the top five suppliers amounted to RMB722.32 million, accounting for 17.52% of the total procurement amount for the year, among which, procurement from the top five suppliers which was procurement from related parties amounted to RMB343.95 million, accounting for 8.34% of the total procurement amount for the year.

### 3. Expenses

Unit: Yuan Currency: RMB

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Change in amounts	Change (%)
Selling expenses	<b>461,866,175.50</b>	436,011,715.40	25,854,460.10	5.93
Administrative expenses	<b>764,198,051.29</b>	503,321,348.16	260,876,703.13	51.83
Research and development expenses	<b>378,394,140.28</b>	386,339,439.17	-7,945,298.89	-2.06
Finance expenses	<b>105,047,052.79</b>	73,123,501.81	31,923,550.98	43.66

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, the Company's total expenses were RMB1,709.51 million, representing an increase of RMB310.71 million or 22.21% as compared with the corresponding period of last year.

**Selling expenses:** increased by 5.93% as compared with the corresponding period of last year, mainly due to the increase in promotion and service costs as a result of the Company's enhanced product promotion and service to improve market sales.

**Administrative expenses:** increased by 51.83%, mainly due to the fact that in response to the decrease in market demands, the Company streamlined staff structure according to business needs and put more effort in staff diversion and reduction, resulting in a year-on-year increase of RMB219 million in the provision for termination benefits for the year.

**Finance expenses:** increased by 43.66%, mainly because relatively large exchange losses were generated from the Company's debts denominated in US dollar due to a significant appreciation of the exchange rate of US dollar against RMB during the Reporting Period.

#### 4. **Research and development investment**

##### **Research and development investment table**

*Unit: Yuan Currency: RMB*

Research and development investment expensed during the Reporting Period	378,394,140.28
Research and development investment capitalized during the Reporting Period	0.00
Total research and development investment	378,394,140.28
Total research and development investment as a percentage of operating revenue (%)	6.83
Number of research and development personnel of the Company	1,350
Number of research and development personnel as a percentage of total staff of the Company (%)	15.9
Ratio of research and development investment capitalization (%)	0.00

##### **Explanation**

During the Reporting Period, the Company's research and development expenses decreased by 2.06% as compared with the corresponding period of last year, while the total research and development investment as a percentage of the operating revenue increased by 1.48 percentage points, still maintaining a relatively large amount of research and development investment, which was mainly attributable to the research and development investment made by the Company in tractor and other products to improve core competitiveness of its products with an aim to facilitate business transformation and upgrading.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## 5. Cash Flow

Unit: Yuan Currency: RMB

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Change in amounts	Change (%)
Net cash flow from operating activities	<b>-384,397,747.85</b>	-556,313,931.89	171,916,184.04	N/A
Net cash flow from investment activities	<b>-546,269,548.64</b>	-308,423,718.05	-237,845,830.59	N/A
Net cash flow from financing activities	<b>-734,842,075.84</b>	918,985,309.04	-1,653,827,384.88	-179.96

**Net cash flow from operating activities:** the outflow decreased by RMB171.92 million as compared with the corresponding period of last year, mainly due to the year-on-year increase in net flow generated from the Company's sales of goods during the Reporting Period.

**Net cash flow from investment activities:** the outflow increased by RMB237.85 million as compared with the corresponding period of last year, mainly because the Company used idle funds to invest in wealth management products and structured deposit, and the year-on-year increase in the outstanding amount at the end of the year.

**Net cash flow from financing activities:** the outflow increased by RMB1,653.83 million as compared with the corresponding period of last year, mainly due to the repayment of corporate bonds of RMB1.5 billion by the Company upon expiry during the Reporting Period.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**(II) Analysis on assets and liabilities****1. Assets and liabilities situation**

Unit: Yuan Currency: RMB

Item	Balance as at the end of the Reporting Period	Balance as at the end of the Reporting Period as a percentage of total assets (%)	Balance as at the end of the corresponding period of last year	Balance as at the end of the corresponding period of last year as a percentage of total assets (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)	Explanation
Monetary funds	1,549,845,341.18	11.79	3,292,984,287.50	23.35	-52.93	The Company repaid corporate bonds of RMB1.5 billion during the Reporting Period
Lendings to banks and other financial institutions	200,000,000.00	1.52	0.00	0.00	N/A	YTO Finance's lendings to banks and other financial institutions at the end of the year
Financial assets at fair value through profit or loss	0.00	0.00	40,478,838.50	0.29	-100.00	Adjusted financial instrument classification according to the requirements of new Accounting Standards for Business Enterprises
Trading financial assets	897,235,968.16	6.83	0.00	0.00	N/A	Adjusted financial instrument classification according to the requirements of new Accounting Standards for Business Enterprises
Derivative financial assets	578,743.73	0.00	0.00	0.00	N/A	Due to the appreciation of the US dollar during the Reporting Period, the US dollar denominated loans were recognized as derivative financial assets according to lock exchange agreements
Notes receivable and amounts receivable	929,490,438.84	7.07	1,769,815,757.98	12.55	-47.48	Reclassification of the accounts receivable which was due within more than one year as contractually agreed, in financial nature and collected in a deferred manner to the long-term receivables according to the requirements of new Accounting Standards for Business Enterprises
Advances to suppliers	107,561,199.88	0.82	233,704,609.47	1.66	-53.98	Decrease in prepayment for purchase during the Reporting Period

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Item	Balance as at the end of the Reporting Period	Balance as at the end of the Reporting Period as a percentage of total assets (%)	Balance as at the end of the corresponding period of last year	Balance as at the end of the corresponding period of last year as a percentage of total assets (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)	Explanation
Other receivables	65,741,038.66	0.50	137,573,564.98	0.98	-52.21	Recovered certain amounts during the Reporting Period
Financial assets purchased with agreement for re-sale	150,203,731.40	1.14	80,207,776.70	0.57	87.27	Increase in financial assets purchased with agreement for re-sale of YTO Finance
Non-current assets due within one year	184,159,312.46	1.40	0.00	0.00	N/A	Reclassification
Available-for-sale financial assets	0.00	0.00	188,129,341.41	1.33	-100.00	Adjusted financial instrument classification according to the requirements of new Accounting Standards for Business Enterprises
Held-to-maturity investments	0.00	0.00	58,344,519.48	0.41	-100.00	Held-to-maturity investments due within one year were reclassified to non-current assets due within one year during the Reporting Period
Long-term receivables	280,985,073.83	2.14	0.00	0.00	N/A	Recognition of the amounts which were due within more than one year as contractually agreed, in financial nature and collected in a deferred manner as long-term receivables during the Reporting Period
Receipts of deposits and deposits from other banks	1,080,524,854.03	8.22	780,195,528.74	5.53	38.49	Increase in receipts of deposits of YTO Finance during the Reporting Period as compared with corresponding period of last year
Loans from banks and other financial institutes	0.00	0.00	300,000,000.00	2.13	-100.00	Repayment of the loans from banks and other financial institutes for the prior period by YTO Finance
Taxes payable	24,562,534.28	0.19	17,361,319.90	0.12	41.48	Increase in income tax payable during the Reporting Period
Non-current liabilities due within one year	76,664,479.21	0.58	1,522,040,174.73	10.79	-94.96	During the Reporting Period, the Company repaid corporate bonds of RMB1.5 billion, while some long-term loans that were about to expire were reclassified to this item
Other current liabilities	196,139,042.20	1.49	97,842,469.33	0.69	100.46	Increase in sales discount and sales and service fees recognized during the Reporting Period

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Item	Balance as at the end of the Reporting Period	Balance as at the end of the Reporting Period as a percentage of total assets (%)	Balance as at the end of the corresponding period of last year	Balance as at the end of the corresponding period of last year as a percentage of total assets (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)	Explanation
Long-term payables	8,971,437.07	0.07	0.00	0.00	N/A	Reclassification of interest-free loans to this item during the Reporting Period
Long-term employee salary payable	119,715,885.28	0.91	0.00	0.00	N/A	Reclassification of the termination benefits payable within over one year to this item during the Reporting Period
Short-term loans	2,777,516,101.13	21.14	2,033,879,689.22	14.42	36.56	Increase in short-term bank loans during the Reporting Period
Derivative financial liabilities	2,727,592.84	0.02	12,800,000.00	0.09	-78.69	Decrease in the derivative financial liabilities recognized for the swap and lock exchange agreements in relation to the US dollar loans of the Company due to the depreciation in the exchange rate of RMB against US dollar during the Reporting Period
Advance from customers	0.00	0.00	236,220,968.60	1.67	-100.00	Adjusted financial instrument classification according to the requirements of new Accounting Standards for Business Enterprises
Contract liabilities	369,490,638.57	2.81	0.00	0.00	N/A	Adjusted financial instrument classification according to the requirements of new Accounting Standards for Business Enterprises
Employee salary payable	189,486,846.96	1.44	123,521,513.29	0.88	53.40	Increase in provision for termination benefits due to more effort on staff reduction
Estimated liabilities	3,981,625.85	0.03	13,699,471.42	0.10	-70.94	Repaid certain amounts
Deferred income tax liabilities	130,983,510.46	1.00	28,741,816.43	0.20	355.72	Gains on change in fair value were recognized for trading financial assets according to new standards, and related deferred income tax liabilities were accrued
General risk reserves	0.00	0.00	12,754,318.98	0.09	-100.00	YTO Finance released the general risk reserves during the Reporting Period
Retained earnings	493,080,403.24	3.75	1,273,219,846.84	9.03	-61.27	Due to loss incurred during the Reporting Period

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other Explanations

(1) *Key financial ratios*

Items	As at the end of the Reporting Period	As at the beginning of the Reporting Period	Year-on-year change
Gearing ratio (%)	<b>64.57</b>	59.25	Increased by 5.32 percentage points
Current ratio	<b>1.05</b>	1.21	Decreased by 0.16
Quick ratio	<b>0.85</b>	1.05	Decreased by 0.20

Reasons for ratios change:

Mainly because the Company recorded losses during the Reporting Period, the decline in liabilities was less than the decline in assets, and the scale of net assets decreased, resulting in an increase in gearing ratio and a decrease in current ratio and quick ratio.

(2) *Bank loans*

Bank loans of the Group are mainly in the currency units of RMB, USD and Euro. As at the end of the Reporting Period, bank loans of the Group due within one year amounted to RMB2,837.52 million, of which loans in foreign currency amounted to RMB1,006.99 million (mainly consisting of loans denominated in USD); bank loans due over one year amounted to RMB868.47 million; and bank loans with fixed interest rate amounted to RMB1,179.05 million.

### 2. **Restrictions on main assets as at the end of the Reporting Period**

As at the end of the Reporting Period, the Group's cash and cash equivalents with restrictions on any rights amounted to RMB270,257,510.94, including guarantee letter deposits of RMB232,730.07, bank's acceptance bill deposits of RMB33,196,283.29, letter of credit deposits of RMB7,200,000.00, forward settlements on foreign exchange margin of RMB880,895.02, the central bank's legal deposit reserves of RMB226,992,255.72 and quality guarantee deposits of RMB1,755,346.84.

As at the end of the Reporting Period, the Group's notes receivable with restrictions on any rights was RMB14,919,857.48, which was the amount of notes receivable pledged with the bank during the Reporting Period.

As at the end of the Reporting Period, the Group's original value of fixed assets and intangible assets with restrictions on any rights amounted to a total of RMB100,098,120.94, and the net value amounted to a total of RMB71,670,450.03, which were buildings and land mortgaged to the bank for short-term loans to the Group during the Reporting Period.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. Other Explanations

#### (1) Foreign exchange risk

The business of the Company is mainly situated in the PRC and most of the transactions are settled in RMB. However, as the Company has loans denominated in foreign currencies and its export transactions are settled in foreign currencies (mainly in USD, HKD, Euro, Japanese Yen, AUD, XOF and ZAR), exchange rate fluctuations may affect the operating results of the Company to a certain extent.

#### (2) Contingent liabilities

For further details, please refer to “VII.42 Estimated Liabilities” under section XII Financial Statement of this Report.

#### (3) Principal sources and use of funds

The main sources of funds of the Company are receipts from product sales, bank borrowings and advances from customers. The funds were mainly used for projects relating to operating and investment activities of the Company.

### 4. Overall analysis on external equity investments

#### (1) Financial asset under fair value measurement

Unit: Yuan Currency: RMB

Item	Initial cost of investment	Amount acquired during the Reporting Period	Amount sold during the Reporting Period	Changes in fair value	Investment income	Source of funds
1. Derivative financial assets	0.00	0.00	0.00	578,743.73	0.00	/
2. Derivative financial liabilities	0.00	0.00	0.00	10,072,407.16	0.00	/
3. Trading financial assets	193,089,124.41	0.00	309,467.00	-570,067.23	12,315,540.63	Self-funded
Total	193,089,124.41	0.00	309,467.00	10,081,083.66	12,315,540.63	

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **(III) Sales of material assets and equity interests**

During the Reporting Period, the Company disposed of 93.39% of equity interests and debt interests in YTO Transportation by way of listing-for-sale process on the China Beijing Equity Exchange. As at the date of this report, the equity transfer and registration of changes with industrial and commercial authorities have been completed. For details, please refer to the announcement of First Tractor Company Limited in relation to the Preliminary Quotation and Transfer of Equity Interests and Debt Interests in Controlled Subsidiary by way of Listing-For-Sale Process published by the Company on the website of the Shanghai Stock Exchange on 7 August 2018, the announcement of First Tractor Company Limited in relation to the Update on the Disposal of Equity Interests and Debt Interests in Controlled Subsidiary by way of Listing-For-Sale Process published by the Company on the website of the Shanghai Stock Exchange on 14 September 2018, the announcement of First Tractor Company Limited on the Adjustment to the Transfer Price for the Disposal of Equity Interests and Debt Interests in Controlled Subsidiary by way of Listing-For-Sale Process published by the Company on the website of the Shanghai Stock Exchange on 17 November 2018, the announcement of First Tractor Company Limited in relation to the Update on the Disposal of Equity Interests and Debt Interests in Controlled Subsidiary by way of Listing-For-Sale Process published by the Company on the website of the Shanghai Stock Exchange on 1 March 2019, the overseas regulatory announcements published by the Company on the website of the Stock Exchange on 6 August, 13 September and 16 November 2018, and the “Connected Transaction – Announcement in relation to the Disposal of Equity Interests and Debt Interests in Controlled Subsidiary by way of Listing-For-Sale Process” published by the Company on the website of the Stock Exchange on 28 February 2019.

During the Reporting Period, the Company preliminarily quoted 33.33% of equity interests and approximately RMB68.3883 million of debt interests in Changtuo Company for transfer on the China Beijing Equity Exchange. For details, please refer to the announcement of First Tractor Company Limited in relation to the Preliminary Quotation and Transfer of Equity Interests and Debt Interests in Subsidiary published by the Company on the website of the Shanghai Stock Exchange on 17 November 2018, the announcement of First Tractor Company Limited in relation to the Preliminary Quotation and Transfer of Equity Interests and Debt Interests in Subsidiary and Connected Transaction published by the Company on the website of the Shanghai Stock Exchange on 15 December 2018 and the overseas regulatory announcements published by the Company on the website of the Stock Exchange on 16 November and 14 December 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (IV) Analysis on key equity holding and participating companies

#### 1. Information on key subsidiaries

*Currency: RMB, unless otherwise specified*

Name of company	Registered capital (0'000)	Principal business	As at 31 December 2018		Realized during the Reporting Period	
			Total assets (0'000)	Net assets (0'000)	Operating income (0'000)	Net profit (0'000)
YTO Finance	50,000	Provision of financial services	429,098	81,035	18,543	3,712
YTO Diesel Engine	USD16 million	Manufacturing and sale of engines	240,795	137,464	127,419	-22,851
Tractors Research Company	44,500	Research and development of tractor products	76,667	67,007	21,533	-201
YTO International Trade	6,600	International sale of agricultural machinery	65,508	4,873	59,060	547
YTO France	EURO22.5998 million	Manufacturing and sale of agricultural machinery components	15,534	-2,439	9,278	-20,617
YTO Foundry and Forging	24,883	Processing and sale of rough and semi-finished products and finished products of casting and forging products	34,033	25,406	23,546	44
YTO Shentong	5,300	Manufacturing and sale of mining trucks and other agricultural machinery products	2,684	-28,924	521	349
Changxing Company	300	Sales of products including agricultural machinery, spare parts and diesel engines	57,604	-36,132	291,095	-1,449

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **2. Acquisition and disposal of subsidiaries during the Reporting Period**

On 28 August 2018, the Company convened the 2018 first extraordinary shareholders meeting to review and pass the “Resolution on the Merger and Absorption by the Company of its Wholly-owned Subsidiary, Luoyang Changhong Trading Co., Ltd.”. For details, please refer to the announcement of First Tractor Company Limited on the Poll Voting Results of the 2018 First Extraordinary General Meeting published by the Company on the website of the Shanghai Stock Exchange on 29 August 2018 and the announcement in relation to the Poll Voting Results of the First Extraordinary General Meeting Held on 28 August 2018 published by the Company on the website of the Stock Exchange on 28 August 2018. As at the date of this Report, the cancellation of registration of Luoyang Changhong Trading Co., Ltd. with relevant industrial and commercial authority has been completed.

On 26 October 2018, the Company convened the 24th meeting of the 7th session of the board of directors to consider and approve the liquidation of YTO (Luoyang) Harvester Machinery Co., Ltd. For details, please refer to the announcement of the First Tractor Co., Ltd. on the Liquidation of Yituo (Luoyang) Harvester Machinery Co., Ltd. published by the Company on the website of the Shanghai Stock Exchange on 27 October 2018 and the overseas regulatory announcement published on the website of the Stock Exchange on 26 October 2018. Up to the date of this Report, the liquidation is still in progress.

During the Reporting Period, Yangdong Company Limited, an indirectly controlled subsidiary of the Company, absorbed and merged YTO (Luoyang) Jiangyan Power Machinery Company Limited, and the cancellation of registration of YTO (Luoyang) Jiangyan Power Machinery Company Limited with relevant industrial and commercial authority has been completed.

During the Reporting Period, Tractors Research Company, a controlled subsidiary of the Company, absorbed and merged Luoyang Towing Engineering Vehicle Technology Co., Ltd., and the cancellation of registration of Luoyang Towing Engineering Vehicle Technology Co., Ltd. with relevant industrial and commercial authority has been completed.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. Subsidiaries contributing more than 10% to the net profit of the Company

Unit: 0'000 Currency: RMB

Number	Name of company	Operating revenue for the Reporting Period	Operating profit for the Reporting Period	Net profit for the Reporting Period
1	YTO France	9,278	-12,960	-20,617
2	YTO Diesel Engine	127,419	-24,649	-22,851

### 4. Analysis on material subsidiaries with over 30% change in their operating business

YTO Finance: net profit decreased by RMB43.47 million year-on-year, mainly due to an impairment loss of RMB37.48 million was provisioned for "15 Guoyu Logistics CP001" and "15 Guoyu Logistics CP002" bonds during the Reporting Period.

YTO Diesel Engine: net profit decreased by RMB244.89 million year-on-year, mainly due to the decrease in the sales volume of diesel engine products impacted by the significantly reduced sales volume of tractors and harvesters, and the increase in provision for termination benefits resulting from staff reposition.

Tractors Research Company: net profit decreased by RMB16.89 million year-on-year, mainly due to the decrease in profit as a result of the decrease in revenue during the Reporting Period.

YTO International Trade: net profit increased by RMB34.55 million year-on-year, mainly due to the year-on-year increase in exchange gain resulting from the rising exchange rate of USD during the Reporting Period.

YTO France: net profit decreased by RMB172.01 million year-on-year, mainly due to the decrease in sales volume and the expenses accrued for staff reposition.

YTO Foundry and Forging: net profit decreased by RMB20.20 million year-on-year, mainly due to the decrease in gross profit margin as a result of the continuous increase in the raw material prices of main products, and the increase in provision for termination benefits arising from the implementation of staff reposition during the Reporting Period.

YTO Shentong: net loss decreased by RMB18.94 million year-on-year, mainly due to the increase in gross profit margin of its products resulting from the decreased costs during the Reporting Period following the business restructuring and staff reposition in 2017.

Changxing Company: net loss decreased by RMB62.08 million year-on-year, mainly due to the enhancement in cost control and the state subsidies received during the Reporting Period.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### III. THE COMPANY'S DISCUSSION AND ANALYSIS ON ITS FUTURE DEVELOPMENT

#### (I) Competition dynamics and development trend of the industry

The agricultural machinery market will still face challenges in 2019. The rigid demand in agricultural machinery market is insufficient, the marginal effect of subsidy policy is diminishing, the intense market competition is still difficult to fundamentally change, and it will take additional time to digest the factors restricting the development of the industry. It is expected that adjustment will continue in the agricultural machinery industry, and the total market demand for tractors and off-road diesel engines is expected to decrease to varying degrees, but the decline may narrow. Meanwhile, the profound adjustment of the agricultural machinery market also brings about development opportunities. On the one hand, the decreased planting income and the extended investment payback period in recent years made users pay more attention to brands and pursue cost-effective products, as a result, the requirements for product quality have been further improved, and the requirements for the timeliness and effectiveness of services have also been further upgraded. The year-by-year increase in the number of collective users such as cooperatives, farms and agricultural reclamation enterprises, and the implementation of various policies for deep scarification, deep tillage, farmland transfer and agricultural machinery purchase subsidies have jointly promoted the development of product demands towards large-scale and high-end intelligent trends, and the demanded power of tractors will continue to increase gradually. Under the increasingly strict environmental protection regulations, the upgrading of emission standards for off-road machineries is inevitable, and the technical threshold of the industry has been continuously improved accordingly. Currently, the agricultural machinery and equipment industry, which is related to national food security and agricultural modernization, is highly concerned and supported by the State. In December 2018, the State Council held an executive meeting to accelerate the promotion of agricultural mechanization and the upgrading of agricultural machinery and equipment industry. At the beginning of 2019, the "No. 1 Document" of the Central Committee of the Communist Party of China and the State Council continued to focus on the affairs related to agriculture, rural areas and farmers, and made clear arrangements from certain aspects including "solidifying the foundation for agricultural development, continuously deepening rural reform, and comprehensively promoting rural revitalization". Rural revitalization and agricultural modernization cannot be materialized without the support of agricultural mechanization and efficient agricultural machinery and equipment. For companies possessing strong capabilities in technological innovation, core manufacture and integration of mechanization and information, it will be also an important opportunity to promote their product upgrading and enhance their competitive edge.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **(II) Development strategy of the Company**

In the past year, despite the vigorously implementing innovation and promoting change within the Company guided by the principle of “transformation and upgrading, quality and efficiency improvement”, under the backdrop of the agricultural machinery industry having entered a period of profound adjustment, the problem of unbalanced business structure of the Company and its operating capacity not effectively adapting to the needs of enterprise development was further highlighted. Meanwhile, the phased effects of industrial upgrading and management improvement could not completely compensate for the negative impact of insufficient operating scale on operating performance in a short term. Under the background of more complex and severe macroeconomic environment, the Company faced urgent and arduous task of “stabilizing growth”. At present, not only should the Company focus on overcoming external challenges such as intensified competition in the industry, sluggish market demand and increased capital risks, but also the Company should pursue long-term development and promote product structure adjustment and upgrading and deepen enterprise reform. In 2019, the Company will adjust its strategic thinking to condense endogenous power and implement business restructuring, international business model adjustment, staff restructuring, asset structure adjustment, capital structure adjustment and mechanism reform in adherence to the strategic development philosophy of “smart drive, full set development, global layout, breakthrough in transformation”. The Company will continue to treat transformation and upgrading, quality and efficiency improvement as its main task, focus on business development, market increment, efficiency and quality and incentive mechanisms to continuously enhance the competitive advantage of its core business.

### **(III) Operation plan**

To strengthen and optimize the main business – tractor business. First, the Company will, in adherence to the market-oriented principle, actively carry out product innovation and development to produce more cost-effective products with higher quality. Second, the Company will focus on market development, solidify market awareness, and keep abreast with the market trend to enhance market response. In addition, the Company will strengthen marketing control and spare no pains to expand market sales. Third, the Company will enhance quality awareness and create a thick atmosphere of pursuing high-quality development in enterprise and among employees as well as for products. Additionally, the Company will strengthen the quality management by strictly carrying out supply chain management and production process control with a view to continuously improving product quality, thereby creating a brand image of the “Dongfanghong” tractors representing high quality. Further, the Company will continue to steadily promote the marketing of power-shift products and the research and development of variable transmission tractors, to consolidate the leading advantages on product technology.

To implement product upgrades for the diesel engine business. The Company will accelerate the upgrading and development of diesel engine products which are in line with the National IV emission standards, as well as the commercialization of National V standard products, in order to maintain its technological leadership and competitive advantages in market.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

To extend its business chain and promote the implementation of complete solutions to develop the services to agricultural and rural engineering fields. With agricultural services as the core, and under the support of the intelligent management of agricultural machinery and e-commerce business, the Company will strive to improve user stickiness, develop precision agriculture, and gradually improve the service capacity along the whole agricultural industry chain. Further, the Company will push forward the commercial application of intelligent control technology, and explore and develop complete solutions with its own characteristics specific to smart agriculture.

To promote international operations and strive to increase international market share and competitiveness. First, the Company will deeply cultivate overseas market, carefully carry out demand and product research on target markets and subdivide target markets accordingly to grasp user needs and seek product solutions applicable to local agronomic features, thereby enhancing product competitiveness. Second, the Company will systematically plan the international operations by upholding the concept of long-term development, concentrate resources on key markets and improve key market layout, and strive to achieve breakthroughs in key markets. Third, the Company will proactively carry out foreign cooperation to open up more channels, link more resources and gather more power.

To reinforce management, strive to lay a solid foundation and prevent and control risks. In particular, the Company will enhance budget management and effectively control costs and expenses in order to reduce unnecessary expenses. In addition, the Company will vigorously reduce the percentage of accounts receivable and inventory in total assets to prevent capital risks. The Company will also firmly carry out the governance of loss-making enterprises and the disposal of low-efficiency assets, put existing resources to good use, so as to reduce operating costs and improve asset operation efficiency. Further, the Company will implement a more flexible and effective incentive mechanism to invigorate the operations at all levels.

Through the above measures, the Company will strive to turn losses into profits in 2019 and achieve sustainable and healthy development.

### (IV) Potential risks

#### 1. *Market risk*

China has excess capacity for the medium- to low-end agricultural machinery equipment applicable to the cultivation and harvesting of staple crops, and the ownership volume of agricultural machinery will continue to increase. Affected by various factors such as market-oriented reform of grain price and the decreased limit and proportion of machinery purchase subsidy, it is expected that the deep adjustment will continue in the domestic tractor market. Although the product power gradually increased and the structure is continuously optimized boosted by the policies, the total demand for products is expected to continue to decline. Currently, the major products of the Company are still tractors, and the product line is relatively simple, which is difficult to meet the market demand for new types of agricultural machinery products that are generated under the environment of “improving weakness” in agricultural machinery development, thus product sales are facing market risks.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Company will actively grasp the trend of higher demand for high-power tractor in the context of large-scale land and intensive management, vigorously develop intelligent, efficient, energy-saving and environmentally-friendly agricultural machinery products, and enhance the development of overseas market, especially the markets in the countries covered by the “Belt & Road” Initiative. Meanwhile, the Company will continue to enrich the agricultural machinery equipment industry chain, actively promote the supporting sales of machinery unit, forming a product portfolio featuring the whole-process mechanization in agricultural production.

### **2. Operational risk**

In the domestic market, in order to cope with the increasingly intensified market competition and enhance the sales competitiveness of the Company, the Company adopted new sales methods such as credit sales and financial lease. Although these new sales methods have improved the sales decline to some extent, and solidified the leading position of the Company in the industry, but also caused the increase in accounts receivable, which may generate certain operational risks. In addition, due to insufficient purchasing power at the demand side, it is more difficult to transfer the increased cost arising from product upgrades to the demand side, which lowers the overall profitability of the Company and may also cause certain operational risks.

In terms of international operations, affected by many factors such as the regional political situation, policies, trade unions, etc., the Company’s international business may be exposed for operational risks.

The Company will enhance operational risk control, strengthen the management of accounts receivable; and meanwhile, actively respond to the changes in market demand by offering high cost-effective products. In the overseas market, the Company will grasp the market opportunities arising from the “Belt and Road” Initiative, continue to optimize the channel layout, implement the localization strategy, and promote the transformation from traditional trade to overseas marketing, so as to increase sales in overseas markets.

### **3. Risk relating to rising prices of raw materials**

In recent years, commodity prices have been on the rise. As steel, rubber and other materials constitute a major part of the Company’s purchases of raw materials and spare parts, the profitability of the Company will be affected if there is any significant increase in the prices of raw materials. The Company will mitigate the impact of rising raw material prices on the results of the Company by adopting such measures as optimizing procurement process, shortening the intermediate purchase links and centralizing large-scale purchases. The Company will also mitigate the risk of fluctuating raw material prices by making advance payment to lock the prices of raw materials which are likely to increase significantly.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **4. Risk relating to technology upgrade**

With more efforts devoted in the pollution prevention and control by the whole society, China continues to promote the conversion and upgrading of off-road diesel engine emission standards. The agricultural machinery failing to meet requirements of the emission standards will not be allowed for sale in the future, which imposes higher requirements for technical upgrading of diesel engine products and matching diesel engine and agricultural machinery. The Company will accelerate the research and development and commercialization of diesel engine products in line with the National IV and V standards, solidify its advantages in technical reserves and the supporting products for the machines in the field of off-road diesel engine.

## SIGNIFICANT EVENTS

## I. PROPOSAL OF PROFIT DISTRIBUTION OF ORDINARY SHARES OR CAPITALIZATION FROM CAPITAL RESERVES

### (I) Proposal or plan of profit distribution of ordinary shares and proposal or plan of capitalization from capital reserves of the Company in the latest three years (including the Reporting Period)

Unit: Yuan Currency: RMB

Year of dividend distribution	Number of bonus shares for every 10 shares (share)	Dividend for every 10 shares (Yuan) (tax inclusive)	Number of conversion shares for every 10 shares (share)	Amount of cash dividends (tax inclusive)	Net profit	As a percentage
					attributable to the shareholders of the Company as shown in the consolidated statements for the year distributing dividend	of net profit attributable to the shareholders of the Company as shown in the consolidated statements (%)
2018	0	0	0	0	0	0
2017	0	0	0	17,868,700	56,514,222.97	31.62
2016	0	0.57	0	75,570,900	223,369,729.35	33.83

*Note:* As the Company recorded losses in terms of audited net profit for 2018, the board of directors of the Company has formulated a plan for not distributing annual profits according to the Articles of Association of the Company, and proposes not to distribute any cash dividend for the year. The dividend payments for 2017 include the amount of RMB17,868,700 paid for repurchase of shares which is deemed as cash dividends.

## SIGNIFICANT EVENTS (CONTINUED)

## II. FULFILLMENT OF UNDERTAKINGS

## (I) Undertakings made by the Company's ultimate controller, shareholders, connected parties, acquirers and the Company or other related parties during or subsisting to the Reporting Period

Background of undertaking	Type	Party making the undertaking	Content	Term of the undertaking	Is there any deadline for performance?	Is it performed in a timely and strict manner?
Undertaking related to the initial public offering	Solutions to business competition	The Company	Commencing from 11 January 2012, YTO (Luoyang) Machinery Equipment Company Limited no longer engages in the purchase, assembly and sale of agricultural machinery and equipment products other than the supporting sale of the agricultural machinery and equipment products which have been purchased or ordered. The Company and all its controlled subsidiaries shall not engage in the processing, production or assembly of agricultural machinery and equipment, except the supporting sale and relevant procurement.	Long term	Yes	Yes
	Solutions to business competition	YTO	YTO will not engage in and will procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where YTO or other enterprises controlled by it may bring unfair impact on the Company in areas including market share, business opportunity and resources allocation, YTO will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company.	Long term	Yes	Yes
	Solutions to business competition	Sinomach	Sinomach will not engage in and will procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where Sinomach or other enterprises controlled by it may bring unfair impact on the Company in areas including market share, business opportunity and resources allocation, Sinomach will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company.	Long term	Yes	Yes

## SIGNIFICANT EVENTS (CONTINUED)

Background of undertaking	Type	Party making the undertaking	Content	Term of the undertaking	Is there any deadline for performance?	Is it performed in a timely and strict manner?
	Other	YTO	YTO and YTO Finance entered into the Deposit Agreement and Loan Agreement, which stipulated the annual caps of loan obtained by YTO and its subsidiaries (excluding the Company) from YTO Finance. YTO further undertook that, on the basis of the aforesaid Deposit Agreement and Loan Agreement and cap amounts of connected transactions, the loan of YTO and its subsidiaries (excluding the Company) obtained from YTO Finance will be less than their deposits placed with YTO Finance, and YTO will ensure the safety of its subsidiaries' loan through various measures.	Long term	Yes	Yes

### III. ANALYSIS AND EXPLANATION ON THE REASONS AND IMPACTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS OF THE COMPANY

#### (I) Analysis and explanation on changes in accounting policies and accounting estimates of the Company

##### (1) *Impacts of New Revenue Standards on the Company*

Since 1 January 2018, the Group has implemented the revised “Accounting Standards for Business Enterprises No. 14 – Revenue” (the “New Revenue Standards”) issued by the Ministry of Finance on 5 July 2017. The standard stipulates that the enterprise that implements this standard should adjust the retained earnings and other items in the financial statements for the first time of the implementation of the standard based on the cumulative number of impacts, and the information for the comparable period will not be adjusted. Based on the assessment of the Company, the Company’s implementation of the new revenue standard does not have a significant impact on the Company’s existing revenue recognition, thus the Company does not need to adjust the retained earnings at the beginning of the year.

##### (2) *Impacts of New Financial Instruments Standards on the Company*

Since 1 January 2018, the Group has implemented the revised “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets”, “Accounting Standards for Business Enterprises No. 24 – Hedging Accounting”, “Accounting Standards for Business Enterprises No. 37 – Financial Instruments” Presentation (the “New Financial Instruments Standards”) issued by the Ministry of Finance in March 2017. The standard

## SIGNIFICANT EVENTS (CONTINUED)

stipulates that on the implementation date of the standard, the enterprise shall classify and measure the financial instruments according to the regulations. If the data of the previous comparative financial statements are inconsistent with the requirements of this standard, no adjustment is needed. The difference between the original book value of the financial instrument and the new book value at the date of implementation of the standard is included in the retained earnings, other comprehensive income and other items in the financial statements as at 1 January 2018. The items previously accounted for in the available-for-sale financial assets of the Group are directly designated as financial assets measured at fair value through profit or loss. This accounting change resulted in an increase of RMB591,510,084.65 in owners' equity at the beginning of the period, of which the retained earnings at the beginning of the period increased by RMB507,215,011.34, the surplus reserve increased by RMB3,658,821.49, and the minority interests at the beginning of the period increased by RMB80,636,251.82.

## IV. APPOINTMENT OR DISMISSAL OF AUDITOR

*Unit: 0'000 Currency: RMB*

	<b>Previous appointment</b>	<b>Current appointment</b>
Name of the domestic auditor	/	Da Hua Certified Public Accountants (Special General Partnership)
Remuneration of the domestic auditor	/	223
Term of the domestic auditor	/	2
	<b>Name</b>	<b>Remuneration</b>
Auditor for internal control	Da Hua Certified Public Accountants (Special General Partnership)	40

**Explanation on appointment or dismissal of auditor**

As considered and approved in the annual general meeting in 2015, the Company continued to appoint ShineWing Certified Public Accountants LLP as the auditor for financial statements and internal control of the Company for the year 2016, and authorized the Board to determine the remuneration of the auditor.

As considered and approved in the annual general meeting in 2016, the Company continued to appoint ShineWing Certified Public Accountants LLP as the auditor for financial statements and internal control of the Company for the year 2017, and authorized the Board to determine the remuneration of the auditor.

On 15 November 2017, as considered and approved by the second extraordinary general meeting of the Company for the year 2017, the Company ceased to appoint ShineWing Certified Public Accountants LLP as the auditor for the Company's financial report (the "Financial Report Auditor") and the internal control auditor of the Company for the year 2017 and appointed Da Hua Certified Public Accountants (Special General Partnership) as the auditor for financial statements and internal control of the Company for the year 2017. The Board was authorized to determine its remuneration.

As considered and approved in the annual general meeting in 2018, the Company continued to appoint Da Hua Certified Public Accountants (Special General Partnership) as the auditor for financial statements and internal control of the Company for the year 2018, and authorized the Board to determine the remuneration of the auditor.

## SIGNIFICANT EVENTS (CONTINUED)

**V. POTENTIAL RISK OF SUSPENSION OF LISTING**

During the Reporting Period, the Company had no suspension of listing and delisting.

**VI. MATERIAL LITIGATION AND ARBITRATION**

During the Reporting Period, the Company had no material litigation and arbitration.

**VII. PUNISHMENT ON AND RECTIFICATION OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ULTIMATE CONTROLLER AND ACQUIRERS**

On 9 August 2018, the Company received the “Decision on Imposition of Rectification Measures on First Tractor Company Limited” issued by Henan Supervision Bureau of China Securities Regulatory Commission ([2018] No. 4). For details, please refer to the announcement of First Tractor Company Limited on receipt of the Decision of Administrative Supervision Measures issued by Henan Supervision Bureau of China Securities Regulatory Commission published by the Company on 11 August 2008 and the overseas regulatory announcement published by the Company on the website of the Stock Exchange on 10 August 2018. The main rectification matters are as follows:

<b>Rectification matters</b>	<b>Rectification measures</b>	<b>Person in charge</b>	<b>Rectification period</b>
The Company’s related party disclosure was incomplete. The Company did not disclose China Machinery Industrial Products Co., Ltd. and YTO (Luoyang) Rico Automobile Co. Ltd. as related parties in the Annual Report, which did not comply with the requirement of Article 48 of the Measures for the Administration of Information Disclosure of Listed Companies.	<ol style="list-style-type: none"> <li>1. The Company carefully checked the connected transactions in the preparation of the 2018 interim report. Among which, China Machinery Industrial Products Co., Ltd. did not have any business relationship with the Company in the first half of the year, and the connected transaction between YTO (Luoyang) Rico Automobile Co. Ltd. and the Company has been disclosed in the interim report according to requirements.</li> <li>2. In the future, the Company will strictly implement the information disclosure requirements of listed companies such as the “Content and Format of Information Disclosure of the Listed Companies No. 15 – General Provisions on Financial Reporting”, improve the quality of financial information disclosure, and ensure the accuracy and completeness of information disclosure of the Company.</li> </ol>	Chief financial officer	Already rectified

## SIGNIFICANT EVENTS (CONTINUED)

Rectification matters	Rectification measures	Person in charge	Rectification period
<p>The Company's bad debts provisioning policy for accounts receivable was not complete, bad debts provision was not made in strict compliance with the accounting policies as disclosed. The Company's bad debt provisioning policy did not include the "financial assets which are not impaired on individual basis (including financial assets which are individually significant and not significant) as specified in the standard, and should be included in the portfolio of financial assets with similar credit risk characteristics to be reassessed for impairment; the bad debts provisioning policies for accounts receivable with significant single amount of certain subsidiaries were not consistent, and relevant provision was not made in compliance with the accounting policies as disclosed by the Company, which did not comply with the requirement of Article 43 of the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments".</p>	<p>In 2017, the Ministry of Finance revised certain provisions under the Accounting Standards for Business Enterprises, which required that companies listed on domestic and overseas stock exchanges at the same time should implement the new standards from 1 January 2018. The Company will revise and improve the bad debts provisioning policy for the accounts receivable of the Company in accordance with the requirements on the recognition, measurement and disclosure of financial instruments in the revised accounting standards. The Company will classify accounts receivable according to different risk characteristics, reasonably estimate the credit loss rate of various accounts receivable, and formulate the corresponding bad debt provisioning policy for accounts receivable to fully reflect the risk of various accounts receivable.</p> <p>In the future, the Company will strictly implement the Accounting Standards for Business Enterprises to formulate and disclose accounting policies, to ensure that the actual implementation of the for bad debts provisioning policy of accounts receivable of the Company is consistent with the accounting policies as disclosed.</p>	Chief financial officer	Already rectified

## SIGNIFICANT EVENTS (CONTINUED)

Rectification matters	Rectification measures	Person in charge	Rectification period
<p>The impairment amount of fixed assets was calculated in a wrong method. The impairment loss of fixed assets of Changtuo Company within the scope of the Company's consolidation was accrued based on the estimated loss of long-term equity investment made by First Tractor in Changtuo Company, which did not comply with Articles 2 and 6 of the "Accounting Standards for Business Enterprises No. 8 – Impairment of Assets".</p>	<ol style="list-style-type: none"> <li>1. In the preparation of the 2018 interim report, the Company carried out impairment test on the relevant assets of Changtuo Company, and did not find new indication of impairment. In the future, the Company will conduct impairment test on relevant assets using appropriate methods in strict accordance with relevant accounting standards to ensure that the Company's accounting treatment is in compliance with the "Accounting Standards for Business Enterprises No. 8 – Impairment of Assets".</li> <li>2. Since 2017, the Company has been seeking to dispose of the equity interest held in Changtuo Company, and currently the disposal is in progress. If the disposal cannot be completed in the current year, the Company will conduct an impairment test on the actual condition of its assets in accordance with the accounting standards at the end of 2018, and make accounting treatment in strict accordance with relevant regulations.</li> </ol>	<p>Chief financial officer</p>	<p>Already rectified</p>

## SIGNIFICANT EVENTS (CONTINUED)

Rectification matters	Rectification measures	Person in charge	Rectification period
Some construction in progress was not transferred to fixed assets in a timely manner. Some construction in progress of the Company have been completed and accepted but have not been transferred to fixed assets or the transfer to fixed assets was delayed, which did not comply with Article 19 of the "Accounting Standards for Business Enterprises – General Standards" and Article 4 of the "Accounting Standards for Business Enterprises No. 4 – Fixed Assets."	<ol style="list-style-type: none"> <li>1. As at the end of June 2018, the Company has completed the transfer of such construction in progress that was not timely transferred previously to fixed assets, and conducted accounting treatment accordingly.</li> <li>2. The Company will further strengthen the management of the check-up of construction in progress and its transfer to fixed assets, improve the process of transferring investment projects to fixed assets, properly conduct the connection between business and finance, as well as the coordination between departments, to ensure that assets in line with relevant conditions will be timely transferred to fixed assets in accordance with accounting standards and financial management requirements of the Company.</li> </ol>	Chief financial officer	Already rectified

For details of the rectification, please refer to the Rectification Report of First Tractor Company Limited on the Decision on Imposition of Rectification Measures on the Company issued by Henan Supervision Bureau disclosed by the Company on the website of the Shanghai Stock Exchange on 15 September 2018, and the overseas regulatory announcement published on the website of the Stock Exchange on 14 September 2018.

## SIGNIFICANT EVENTS (CONTINUED)

## VIII. EXPLANATION ON HONESTY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ULTIMATE CONTROLLER DURING THE REPORTING PERIOD

During the Reporting Period, the Company, YTO, its controlling shareholder, and Sinomach, its ultimate controlling shareholder, operated according to the laws and with honesty. There was no situation of dishonesty of non-performance of court judgment or non-repayment of relative large amount of debt when due, etc.

The Company's ultimate controller is the State-owned Assets Supervision and Administration Commission of the State Council.

## IX. MATERIAL CONNECTED TRANSACTIONS

### (I) Connected transactions relating to daily operation

#### 1. *Matters which have been disclosed in the provisional announcements with development or changes in subsequent implementation*

Connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange and the Listing Rules of Shanghai Stock Exchange:

Unit: 0'000 Currency: RMB

Number	Agreement	Date of agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transaction in 2018	Actual amount of transaction in 2018	As a percentage to amount of comparable transaction (%)
1	Material Procurement Agreement	25 August 2015	YTO	Controlling shareholder	Purchase of raw materials, other industrial equipment, spare parts and other necessities from YTO by the Company.	(1) the market price of an independent third party; (2) if there is no market price determined by an independent third party, the transaction price between YTO Group and its associates, Sinomach and its subsidiaries and an independent third party; and (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).	164,800	61,296	12.44

## SIGNIFICANT EVENTS (CONTINUED)

Number	Agreement	Date of agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
2	Sale of Goods Agreement	25 August 2015	YTO	Controlling shareholder	Sale of raw materials, components, spare parts, equipment and other necessities by the Company to YTO.	(1) the market price of an independent third party; (2) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party; and (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).	48,800	27,449	5.02
3	Composite Services Agreement	25 August 2015	YTO	Controlling shareholder	Provision of storage and transportation services to the Company and its subsidiaries by YTO.	(1) the market price of an independent third party; (2) if there is no market price determined by an independent third party, the transaction price between YTO, its controlled companies and their associates and an independent third party; and (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).	22,500	13,575	97.75
4	Energy Procurement Agreement	25 August 2015	YTO	Controlling shareholder	Provision of energy and related services to the Company and its subsidiaries by YTO	(1) the governmental guidance price; (2) if there is no governmental guidance price, the market price or the transaction price between the Group and an independent third party; (3) if none of the above is applicable, the transaction price between YTO and an independent third party; and (4) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).	20,000	16,045	96.13

## SIGNIFICANT EVENTS (CONTINUED)

Number	Agreement	Date of agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
5	Properties Lease Agreement	25 August 2015	YTO	Controlling shareholder	Lease of properties by YTO to the Company and its subsidiaries	(1) the transaction price between the lessor and an independent third party; and  (2) if the above is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar property.	1,800	890	100
6	Land Lease Agreement	25 August 2015	YTO	Controlling shareholder	Lease of land by YTO to the Company and its subsidiaries	(1) the transaction price between the lessor and an independent third party; and  (2) If the above is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar property.	1,900	1,227	100
7	Deposit Service Agreement	25 August 2015	YTO	Controlling shareholder	Provision of deposit services by YTO Finance to YTO	The relevant interest rates prescribed by the PBOC.	180,000	176,017	44.61
8	Loan Service Agreement	25 August 2015	YTO	Controlling shareholder	Provision of loan services by YTO Finance to YTO	(1) the rate prescribed by the CBIRC or the PBOC;  (2) if the above rate is not applicable, the rate charged in the same industry in the PRC for the same type and same period of loans by enquiries in the market; and  (3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO after considering the fair rate offered by the third party on the comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors.	90,000	89,785	41.40

## SIGNIFICANT EVENTS (CONTINUED)

Number	Agreement	Date of agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
9	Bills Acceptance Service Agreement	25 August 2015	YTO	Controlling shareholder	Provision of bills acceptance services by YTO Finance to YTO	<p>(1) the rate in relation to the same type and same period of bills acceptance services prescribed by the CBIRC or the PBOC;</p> <p>(2) if the above rate is not applicable, the rate charged in applicable industry for the same type and same period of bills acceptance services; and</p> <p>(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO after considering the fair rate offered by the third party on the comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors.</p>	30,000	16,075	16.98
10	Bills Discounting Service Agreement	25 August 2015	YTO	Controlling shareholder	Provision of bills discounting services by YTO Finance to YTO	<p>(1) the rate in relation to the same type and same period of bills discounting services prescribed by the CBIRC or the PBOC;</p> <p>(2) if the above rate is not applicable (as the rate prescribed by the CBIRC or the PBOC currently is a bills rediscounting rate), the rate charged in applicable industry for the same type and same period of bills discounting services; and</p> <p>(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO after considering the fair rate offered by the third party on the comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors.</p>	49,000	13,929	60.42

## SIGNIFICANT EVENTS (CONTINUED)

Number	Agreement	Date of agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
11	Interbank Business Services Agreement	25 August 2015	Sinomach Finance Co., Ltd.	Controlled subsidiary of an indirect controlling shareholder	YTO Finance and Sinomach Finance Co., Ltd. provide financing services to each other, including interbank deposits, loans, transfer of credit assets and other interbank business services	(1) based on the SHIBOR announced by Shanghai Interbank Offered Market in the same type and same period of transaction for interbank lending and interbank bond transactions rate for bond transactions conducted between financial institutions;  (2) with reference to the deposit rates for the same type and same period of funds announced by other financial institutions for interbank deposit;  (3) with reference to the market price of the target assets in capital financing announced by other financial institutions for credit asset transfer; and  (4) if none of the above is applicable, after arm's length negotiation between the counterparties after considering their financial positions and terms, size and quality of the financial assets.	90,000	70,000	27.68
12	Common Resource Services Agreement	30 March 2018	YTO	Controlling shareholder	Provision of plant area greening, cleaning, logistical support and other public resources services by YTO to the Company and its subsidiaries	(1) the transaction prices between YTO and independent third parties;  (2) Cost Plus Method, with the percentage mark-up of no more than 10%.	1,300	1,115	100
13	Properties Lease Agreement	16 March 2018	YTO	Controlling shareholder	Lease of properties from the Company and its subsidiaries	The State government guidance price; the price of the non-connected transactions between the lessor and the independent third parties; if none of the above is available or applicable, then the price will be determined under arm's length negotiations between the two parties	470	417	39.58
14	Land Lease Agreement	16 March 2018	YTO	Controlling shareholder	Lease of land from the Company and its subsidiaries	The State government guidance price; the price of the non-connected transactions between the lessor and the independent third parties; if none of the above is available or applicable, then the price will be determined under arm's length negotiations between the two parties	290	281	56.25

## SIGNIFICANT EVENTS (CONTINUED)

1. For details of No. 1–11 connected transactions, please refer to the “Announcement on the Resolutions Passed at the Twenty-second Meeting of the Sixth Session of the Board”, “Announcement on Continuing Connected Transactions” and “Announcement on the Resolutions Passed at 2015 First Extraordinary General Meeting of the Company” published on 26 August 2015 and 30 October 2015 respectively on the website of the Shanghai Stock Exchange, and the “Continuing Connected Transactions” announcement and “Poll Voting Results of the Extraordinary General Meeting Held on 29 October 2015” announcement of the Company published on 25 August 2015 and 29 October 2015 respectively on the website of the Stock Exchange. On 13 June 2017, the “Resolution on the Increase in 2017 and 2018 Annual Cap Amounts of Continuing Connected Transactions in Material Procurement, Sales of Goods and Composite Services” was considered and approved at the 2016 annual general meeting of the Company. For details, please refer to the “Announcement on the Resolutions Passed at 2016 Annual General Meeting, the 2017 First A Share Class Meeting and the 2017 First H Share Class Meeting of First Tractor Company Limited” published by the Company on the website of the Shanghai Stock Exchange on 14 June 2017, and the announcement published by the Company on the website of the Stock Exchange on 13 June 2017.
2. The Common Resource Services Agreement in above item 12 was valid from 1 April 2018 to 31 December 2018. For details of the connected transaction, please refer to the “Announcement of First Tractor Company Limited on Daily Connected Transactions in relation to Common Resource Services Agreement” published by the Company on the website of the Shanghai Stock Exchange on 31 March 2018, and the “Announcement on Continuing Connected Transaction – Common Resource Services Agreement” published by the Company on the website of the Stock Exchange on 30 March 2018.
3. For details of No. 13–14 connected transactions, please refer to the “Announcement on Continuing Connected Transaction – Properties Lease Agreement and Land Lease Agreement” published by the Company on the website of the Stock Exchange on 16 March 2018.

## SIGNIFICANT EVENTS (CONTINUED)

Connected transaction under Chapter 14A of the Listing Rules of the Stock Exchange:

Unit: 0'000 Currency: RMB

Number	Agreement	Date of agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
15	Technology Services Agreement	25 August 2015	Tractors Research Company	Subsidiary of YTO	Provision of technology research and development, technology consultation and other technology services by Tractors Research Company to the Company	(1) the transaction price between Tractors Research Company and an independent third party; and  (2) if the above is not applicable, determined after arm's length negotiation between the parties taking into account depreciation of the research and development equipment, cost of research and development staff, testing fee and other costs used in the research and development (for research and development services)	11,520	10,574	100

For details of No. 13 connected transaction, please refer to the "Announcement on the Resolutions Passed at the Twenty-second Meeting of the Sixth Session of the Board", "Announcement on Continuing Connected Transactions" and "Announcement on the Resolutions Passed at 2015 First Extraordinary General Meeting of the Company" published on 26 August 2015 and 30 October 2015 respectively on the website of the Shanghai Stock Exchange, and the "Continuing Connected Transactions" announcement and "Poll Voting Results of the Extraordinary General Meeting Held on 29 October 2015" announcement of the Company published on 25 August 2015 and 29 October 2015 respectively on the website of Stock Exchange.

## SIGNIFICANT EVENTS (CONTINUED)

Connected transactions under the Listing Rules of Shanghai Stock Exchange:

Unit: 0'000 Currency: RMB

Number	Agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
16	Premise Tenancy Agreement	ZF YTO Drive Axle	Associated corporation	Lease of land and properties to ZF YTO Drive Axle by the Company	The annual lease fee of RMB7,460,700 was determined by both parties under market principles and negotiation	746.07	746	42.34
17	Technology License Agreement	ZF YTO Drive Axle	Associated corporation	Authorization of use of drive axle production technologies granted by the Company to ZF YTO Drive Axle for production and installation of existing and future products	ZF YTO Drive Axle shall pay technology license fee of 0.3% of the sales revenue of technologies authorization fee of products applying these technologies to the Company	85	46	100
18	Procurement Framework Agreement	ZF YTO Drive Axle	Associated corporation	Purchase of components such as gears and drive shafts for the production of drive axles by ZF YTO Drive Axle from the Company	Prices of components are determined under negotiations between both parties based on prices of past years, the then prevailing market price and factors such as raw material price fluctuations	7,000	2,779	0.51
19	Sales Framework Agreement	ZF YTO Drive Axle	Associated corporation	Sale of goods by ZF YTO Drive Axle to the Company and its branches	Prices of drive axle products are determined under negotiations between both parties based on prices of past years, the then prevailing market price and factors such as raw material price fluctuations. The price of goods sold by ZF YTO Drive Axle to the Company or any of its branches shall not exceed that of the same types of goods sold to ZF Hangzhou	23,500	14,381	2.92
20	/	Luoyang Bank	Associated corporation	The provision of credit service (loans and notes) by Luoyang Bank to the Company	Finance cost of credit business, such as loan rate and note fee, should not be higher than that of other corporative banks	15,000	7,403	0.72
21	/	Luoyang Bank	Associated corporation	The provision of deposit service by Luoyang Bank to the Company	The rate of deposit business prescribed by the PBOC	7,000	1,875	1.21

- For details of No. 16 – 17 connected transactions, please refer to the “Announcement on Resolutions Passed at the Seventeenth Meeting of the Seventh Session of the Board of First Tractor Company Limited” of the Company published on the website of the Shanghai Stock Exchange on 1 December 2017.

## SIGNIFICANT EVENTS (CONTINUED)

2. For details of No. 18 – 19 connected transactions, please refer to the “Announcement on Daily Connected Transactions” and the “Announcement on the Resolutions Passed at 2017 Second Extraordinary General Meeting of the Company” published on the website of Shanghai Stock Exchange on 30 September 2017 and 16 November 2017, respectively, the “Announcement on Sales Framework Agreement and Procurement Framework Agreement” dated 29 September 2017 and the “Announcement on Results of the 2017 Second Extraordinary General Meeting” dated 15 November 2017.
3. For details of No. 20 – 21 connected transactions, please refer to the “Announcement on Daily Connected Transactions between the Company and Luoyang Bank” and the “Announcement on the Resolution Passed at the Seventeenth Meeting of the Seventh Session of the Board” published on the website of Shanghai Stock Exchange on 1 December 2017.

**1. *Having reviewed the records and data of the aforesaid connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange, the independent non-executive Directors confirmed as follows:***

- (1) such connected transactions were entered into in the ordinary and usual course of business of the Group;
- (2) such connected transactions were entered into on normal commercial terms (where applicable, as compared with transactions of similar nature carried out by similar PRC domestic entities or, if no available transactions for comparison, on terms no less favourable than those offered by independent third parties of the Group); and
- (3) such connected transactions were conducted on terms of the agreements governing the relevant transactions, which are fair and reasonable and in the interests of the Company’s shareholders as a whole.

**2. *Confirmation of the aforesaid connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange by auditors***

Having reviewed the continuing connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange during the Reporting Period, the auditors of the Company have sent a letter to the Board confirming that such connected transactions:

- (1) had obtained the approval of the Board;
- (2) were conducted in accordance with the pricing policy of the Group and the terms of the relevant agreements; and
- (3) did not exceed the cap amounts as disclosed in the relevant announcements (and if applicable, as approved by the independent shareholders of the Company) at any time during the Reporting Period.

## SIGNIFICANT EVENTS (CONTINUED)

**3. Confirmation of the aforesaid connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange by Directors**

The Directors (including independent non-executive Directors) confirmed that such transactions were in the interests of the Company and its shareholders as a whole and that none of them has any material interests in the aforesaid connected transactions.

**4. Confirmation of the aforesaid transactions by the Company in relation to the requirements of Chapter 14A of the Listing Rules of the Stock Exchange**

The Company confirmed it has complied with the requirements of Chapter 14A of the Listing Rules of the Stock Exchange in respect of the above connected transactions.

**5. Related party transaction**

Saved as disclosed above, there is no related party transaction or continuing related party transaction as set out in Note XI "Related Parties and Related Parties' Transactions" to the consolidated financial statements that falls under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules of the Stock Exchange. The Company has complied with the requirements of Chapter 14A of the Listing Rules of the Stock Exchange.

**2. Matters not disclosed in the provisional announcements**

Unit: 0'000 Currency: RMB

Connected Counterparty	Connected Relationship	Type of the connected transaction	Content of the connected transaction	Pricing principle of the connected transaction	Estimated annual cap for connected transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
YTO	Controlling shareholder	Provision of services	Provision of process and technical service to YTO by the Company	The State government guidance price; the price of the non-connected transactions between the Company and the independent third parties; the price of the reasonable cost of the service provided by the Company with the addition of gross margin of the comparable non-connected transactions; if none of the above is available or applicable, then the price will be determined under arm's length negotiations between the two parties	110	99	18.33

## SIGNIFICANT EVENTS (CONTINUED)

Connected Counterparty	Connected Relationship	Type of the connected transaction	Content of the connected transaction	Pricing principle of the connected transaction	Estimated annual cap for connected transaction in 2018	Actual amount of the transaction in 2018	As a percentage to amount of comparable transaction (%)
YTO	Controlling shareholder	Provision of services	Provision of calibration service and calibration instrument testing services to YTO by the Company	The State government guidance price; the price of the non-connected transactions between the Company and the independent third parties; the price of the reasonable cost of the service provided by the Company with the addition of gross margin of the comparable non-connected transactions; if none of the above is available or applicable, then the price will be determined under arm's length negotiations between the two parties	110	84	36.69
YTO	Controlling shareholder	Provision of the right to use the patent and trademark, etc	YTO and its subsidiaries are permitted by the Company to use the Dongfanghong trademark	When YTO and its re-licensed subsidiaries and associated companies' aggregated sale revenue (exclusive of taxes) of trademarked products (excluding products not using the registered trademarks) beyond the Group does not exceed RMB5.0 billion (inclusive), 0.2% of aggregated sale revenue (exclusive of taxes) shall be paid; and if the aggregated sale revenue beyond the Group exceeds RMB5.0 billion, the rate for the exceeding part shall be 0.15%	35	32	14.68
YTO	Controlling shareholder	Other outflow	Provision of cleaning service and canteen service	(1) the transaction price between YTO and independent third parties;  (2) Cost Plus Method, with the percentage markup of no more than 10%.	94	94	100
YTO	Controlling shareholder	Other outflow	Provision of youth apartment accommodation service	the transaction price between YTO and independent third parties	100	64	100

Details on return of large-sum sales

Nil

Explanation on connected transactions

The above pricing principle of connected transactions complies with the relevant provisions of the Listing Rules of the Shanghai Stock Exchange and the Stock Exchange, and the amount does not exceed the amount required for disclosure.

## SIGNIFICANT EVENTS (CONTINUED)

### (II) Connected transactions of assets or equity acquisition or disposal

**1. *Matters which have been disclosed in the provisional announcements with development or changes in subsequent implementation***

On 16 November 2018, the Company preliminarily quoted 33.33% of equity interests in Changtuo Company on the China Beijing Equity Exchange for transfer. For details, please refer to the Announcement of First Tractor Company Limited in relation to the Preliminary Quotation and Transfer of Equity Interests and Debt Interests in Subsidiary published by the Company on the website of the Shanghai Stock Exchange on 17 November 2018, and the overseas regulatory announcement published by the Company on the website of the Stock Exchange on 16 November 2018, the Announcement of First Tractor in relation to the Quotation and Disposal of Equity Interests and Debt Interests in Subsidiary and Connected Transaction published by the Company on the website of the Shanghai Stock Exchange on 15 December 2018 and the overseas regulatory announcement published by the Company on the website of the Stock Exchange on 14 December 2018. The subject equity interest was officially quoted on the China Beijing Equity Exchange on 25 January 2019. For details, please refer to the Announcement of First Tractor Company Limited in relation to the Update on the Quotation and Disposal of Equity Interests and Debt Interests in Subsidiary published by the Company on the website of the Shanghai Stock Exchange, and the overseas regulatory announcement published by the Company on the website of the Stock Exchange on 24 January 2019.

### (III) Connected credit and debt dealings

**1. *Matters which have been disclosed in the provisional announcement without development or changes in subsequent implementation***

Event details	Query index
Provision of entrusted loan of RMB27 million by the Company to Changtuo Company during the Reporting Period	For details, please refer to the “Announcement of First Tractor Company Limited on Provision of Entrusted Loan and Connected Transaction” published by the Company on the website of the Shanghai Stock Exchange on 30 March 2018 and the “Announcement on Connected Transaction – Provision of Entrusted Loan” dated 2 April 2018 published on the website of the Stock Exchange.
Acceptance of entrusted loan of RMB700 million provided by YTO, the controlling shareholder, to the Company	For details, please refer to the “Announcement of First Tractor Company Limited on Acceptance of Financial Assistance from Controlling Shareholder” published by the Company on the website of the Shanghai Stock Exchange on 13 July 2018 and the overseas regulatory announcement of the Company published on the website of the Stock Exchange on 12 July 2018.

## SIGNIFICANT EVENTS (CONTINUED)

**(IV) Others**

On 17 September 2018, the Company convened the 23rd meeting of the seventh session of the board of directors in which the board of directors considered and approved the Resolution on the Connected Transaction in relation to Undertaking by Luoyang Tractors Research Company Limited of R&D Project Commissioned by Jiangsu Linhai Jinyangyuan Special Power Equipment Co., Ltd., pursuant to which Tractors Research Company, a majority-owned subsidiary of the Company, undertook the R&D project as commissioned by Jiangsu Linhai Jinyangyuan Special Power Equipment Co., Ltd. for the development of a power machinery product, which constituted a connected transaction. For details, please refer to the Announcement of First Tractor Company Limited on Connected Transaction in relation to Undertaking of R&D Project by A Majority-owned Subsidiary published by the Company on the website of the Shanghai Stock Exchange on 19 September 2018, and the Announcement on Connected Transaction – Undertaking of R&D Project by A Majority-owned Subsidiary published on the website of the Stock Exchange on 18 September 2018.

**X. MATERIAL CONTRACTS AND THE PERFORMANCE THEREOF****(I) Custody, contracting and lease matters****1. Custody**

Unit: Yuan Currency: RMB

Name of principal	Name of trustee	Assets in custody	Amounts of assets in custody	Commencement		Custody income	Recognition basis for custody income	Impact of custody income on the Company	Is it a	
				date of custody	End date of custody				connected transaction	Connected relationship
Sinomach	First Tractor	33.33% of equity interest in Changtuo Company	/	7 March 2013	/	/	/	/	Yes	Indirect controlling shareholder

Explanation on custody:

The principal and the Company have officially quoted the 33.33% of equity interests in Changtuo Company on the China Beijing Equity Exchange for transfer on 25 January 2019. For details, please refer to the Announcement of First Tractor Company Limited in relation to the Update on the Quotation and Disposal of Equity Interests and Debt Interests in Subsidiary published by the Company on the website of the Shanghai Stock Exchange on 26 January 2019, and the overseas regulatory announcement published by the Company on the website of the Stock Exchange on 25 January 2019.

## SIGNIFICANT EVENTS (CONTINUED)

## (II) Guarantees

*Unit: Yuan Currency: RMB*

## External guarantees provided by the Company (excluding guarantees provided for subsidiaries)

Guarantor	Relationship of the Guarantor with the Company	Beneficiary	Amount of the guarantee	Date of guarantee		Type of guarantee	Whether the guarantee is discharged	Whether the guarantee is overdue	Amount of overdue guarantee	Whether there is any counter guarantee	Whether it is a connected party guarantee	Connected relationship
				(Date of agreement)	Commencement date of guarantee							
The Company	Company headquarter	Customer of product finance business	117,708,700.00	1 July 2018		Guarantee with joint liability	No	No	0	Yes	No	
Changxing Company	Wholly-owned subsidiary	Customer of product finance business	86,465,100.00	1 July 2018		Guarantee with joint liability	No	No	0	Yes	No	
Xinjiang Equipment Company	Wholly-owned subsidiary	Customer of product finance business	228,000.00	18 July 2018		Guarantee with joint liability	No	No	0	Yes	No	
YTO Heilongjiang	Wholly-owned subsidiary	Customer of product finance business	280,000.00	1 July 2018		Guarantee with joint liability	No	No	0	Yes	No	

## SIGNIFICANT EVENTS (CONTINUED)

Total amount of guarantees provided during the Reporting Period (excluding guarantees provided for subsidiaries)	448,687,400.00
Total outstanding guarantee amount as at the end of the Reporting Period (A) (excluding guarantees provided for subsidiaries)	204,681,800.00

**Guarantees provided by the Company and its subsidiaries for its subsidiaries**

Total amount of the guarantees provided to subsidiaries during the Reporting Period	249,236,500.00
Total outstanding guarantee amount of the guarantees provided to subsidiaries as at the end of the Reporting Period (B)	288,473,000.00

**Total amount of the guarantees provided by the Company (including guarantees for subsidiaries)**

Total amount of guarantees (A+B)	493,154,800.00
Total amount of guarantees as a percentage to the net assets of the Company (%)	12.31

Of which:

Amount of guarantees provided to shareholders, ultimate controller and its associates (C)	0
Amount of guarantees directly or indirectly provided for liability of parties with a gearing ratio exceeding 70% (D)	258,473,000.00
The portion of total amount of guarantee in excess of 50% of the net assets (E)	0
Total amount of the above three categories of guarantees (C+D+E)	258,473,000.00

Explanation on possible several and joint liability for immature guarantees	/
Explanation on guarantee	/

## SIGNIFICANT EVENTS (CONTINUED)

**(III) Cash assets management by others under entrustment****1. Entrusted assets management***(1) General Entrusted assets management**Unit: Yuan Currency: RMB*

Type	Source of fund	Amount incurred	Amount not yet due	Amount overdue and not recovered
Principal guaranteed short-term wealth management	Own funds	1,150,000,000.00	250,000,000.00	0

**2. Entrusted loans***(1) General conditions of entrusted loans**Unit: Yuan Currency: RMB*

Type	Source of fund	Amount incurred	Amount not yet due	Amount overdue and not recovered
Entrusted loans	Own funds	244,000,000.00	366,000,000.00	0.00

## SIGNIFICANT EVENTS (CONTINUED)

**3. Others**

Type of investment	Amount of investment	Term of investment	Product type	Investment gain/loss	Whether it involved litigation
Debt investment	500,000.00	206 days	THE INTER-BANK BOND (15 Guoyu Logistics cp001)	/	Yes
Debt investment	100,000.00	284 days	THE INTER-BANK BOND (15 Guoyu Logistics cp002)	/	Yes
Debt investment	300,000.00	281 days	THE INTER-BANK BOND (15 Guoyu Logistics cp002)	/	Yes
Debt investment	200,000.00	2 years	Exchange Bond (16 Luo Municipal Bond)	1,430,602.21	No

Explanation on other investment, assets management and investments in derivatives:

- The face value per debt investment is RMB100.
- As at the date of this Annual Report, the 15 Guoyu logistics CP001 and 15 Guoyu logistics CP002 bonds held by YTO Finance were due, and the bond issuer failed to pay the principal and interest timely. (For details, please refer to the “Announcement on Non-repayment of Debt Obligation of controlled subsidiary when due of First Tractor Company Limited”, the “Supplemental Announcement on Non-repayment of Debt Obligation of controlled subsidiary when due of First Tractor Company Limited” and the “Announcement on Non-repayment of Debt Obligation of controlled subsidiary when due of First Tractor Company Limited” published by the Company on the website of Shanghai Stock Exchange on 11 August, 12 August and 1 November 2016, and the relevant overseas regulatory announcements of the Company published on the website of the Stock Exchange.)
- As at 31 December 2018, provision for impairment was fully made for the above 15 Guoyu logistics CP001 and 15 Guoyu logistics CP002 bonds held by YTO Finance.
- For details of the litigation, please refer to “VII.11 Non-current assets due within one year” in Section XII Financial Statement in the Annual Report.

## SIGNIFICANT EVENTS (CONTINUED)

### XI. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

#### (I) Poverty Alleviation by the Company

##### 1. *Targeted poverty alleviation planning*

As the designated supporting unit of Zhifang Village, Tantou Town, Luanchuan County, the Company adhered to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully implemented the guiding principles from the Party's 19th National Congress, thoroughly studied and propagandized the important guidelines of General Secretary Xi Jinping on poverty alleviation, and resolutely completed the decisions and deployment of the Municipal Party Committee and Municipal Government of Luoyang on poverty alleviation. In 2018, the Company gave full play to its resource advantages, scientifically formulated assistance plans and measures, and paid more attention to the improvement of poverty alleviation quality and the motivation of self-generated impetus of poor people, thereby improving farmers' sense of benefit and satisfaction and excellently completing poverty alleviation tasks.

##### 2. *Summary of annual targeted poverty alleviation*

In 2018, the Company assisted Zhifang Village in selling agricultural and sideline products such as sweet potato vermicelli, Luanchuan bean curd, corn grits, etc., with an amount of over RMB900,000, found employment for 18 labors from poor households. The Company continued to follow up the maintenance and repair of tractors and other donated agricultural machinery, and trained agricultural machinery operators to complete wheat harvesting and wheat straw baling for more than 120 acres of field. The Company organized more than 50 people in 19 units to carry out one-to-one assistance to the impoverished villagers in Zhifang Village, and donated daily necessities and school supplies totaling more than RMB30,000. The Company organized an exchange activity with the Party branch of Zhifang on the Party construction in "grass-root enterprises and base-level countryside" to promote the progress of Party construction at basic level. As at the end of 2018, a total of 427 persons (or 126 families) realized poverty alleviation in Zhifang Village, of which 33 persons (or 12 families) went out of poverty in 2018. However, there are still 24 persons (or 11 families) living in poverty currently.

## SIGNIFICANT EVENTS (CONTINUED)

**3. Achievements in targeted poverty alleviation***Unit: 0'000 Currency: RMB*

<b>Index</b>	<b>Number and implementation information</b>
I. General information	The Company organized more than 50 people in 19 units to carry out one-to-one assistance to the impoverished villagers in Zhifang Village, Tantou Town, Luanchuan County, and helped Zhifang Village sell green agricultural products with the sales income reaching RMB947,700.
Including: 1. Capital	90.82
2. Funds converted from materials	3.95
3. Number of registered and recorded people in poverty went out of poverty with support (Person)	18
II. Itemized Input	
1. Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<input checked="" type="checkbox"/> Poverty alleviation through agricultural and forestry industry <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input checked="" type="checkbox"/> Poverty alleviation through asset profit <input type="checkbox"/> Poverty alleviation through science and technology <input type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	1
1.3 Amount invested in industrial poverty alleviation projects	90.82
1.4 Number of registered and recorded people in poverty went out of poverty with support (Person)	18

## SIGNIFICANT EVENTS (CONTINUED)

### **4. *Follow-up targeted poverty alleviation planning***

First, the Company will do a good job in the upgrading of Dongfanghong Loving Care Bean Curd and Vermicelli Factory, enrich the agricultural and sideline product mix in Zhifang Village for sale, increase economic income of village collectives and improve income of households. Second, the Company will properly provide targeted assistance to impoverished families to solve their practical difficulties, and implement various poverty alleviation measures to further improve the satisfaction and sense of benefit of impoverished families. Third, the Company will capitalize on labor service exporting business of YTO to actively guide impoverished people to go aboard, enhance self-generated impetus and increase household income. Fourth, the Company will grasp the opportunities arising from rural revitalization strategy to provide high-quality assistance to rural poor areas in industrial development and environmental enhancement in rural areas.

## **(II) Social responsibility**

For details of the social responsibility performance of the Company, please refer to the “2018 Social Responsibility Report” of the Company published on the website of the Shanghai Stock Exchange and the “2018 Environmental, Social and Governance Report” of the Company published on the website of the Stock Exchange.

## **(III) Environment Information**

### **1. *Description of environmental protection efforts of companies that are not in severely polluting industries***

For details of the environmental protection of the Company, please refer to the “2018 Social Responsibility Report” of the Company published on the website of the Shanghai Stock Exchange and the “2018 Environmental, Social and Governance Report” of the Company published on the website of the Stock Exchange.

# CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

## I. CHANGES IN ORDINARY SHARE CAPITAL

### (I) Changes in ordinary shares

#### 1. Changes in ordinary shares

Unit: Share

	Before the change		Issue of new stock	Changes in current year (+, -)				After the change	
	Number	Percentage (%)		Bonus share	Equity fund transferred into shares	Others	Sub-total	Number	Percentage (%)
<b>I. Shares subject to selling restrictions</b>	0	0	0	0	0	0	0	0	0
1. State-owned shares									
2. Shares held by state-owned legal person									
3. Other domestic shares									
Including: Shares held by domestic non-state-owned legal person									
Shares held by domestic natural person									
4. Foreign shares									
Including: Shares held by overseas legal person									
Shares held by overseas natural person									
<b>II. Non-restricted circulating shares</b>	985,850,000	100	0	0	0	0	0	985,850,000	100
1. Ordinary shares denominated in RMB	593,910,000	60.24	0	0	0	0	0	593,910,000	60.24
2. Domestically listed foreign shares			0	0	0	0	0		
3. Overseas listed foreign shares	391,940,000	39.76	0	0	0	0	0	391,940,000	39.76
4. Others									
<b>III. Total number of ordinary shares</b>	985,850,000	100	0	0	0	0	0	985,850,000	100

#### 2. Explanation on changes in ordinary shares

There were no changes in the ordinary shares of the Company during the Reporting Period.

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

### II. ISSUANCE AND LISTING OF SECURITIES

#### (I) Issuance of securities during the Reporting Period

Unit: Share Currency: RMB

Types of shares and derivative securities	Date of issue	Issuing price (or interest rate)	Issuing amount	Date of listing	Number of shares approved for listing and trading	Closing date of transactions
Ordinary shares A Shares	27 July 2012	RMB5.40	150,000,000	8 August 2012	150,000,000	/

### III. SHAREHOLDERS AND ULTIMATE CONTROLLER

#### (I) Total number of shareholders

Total number of ordinary shareholders as at the end of the Reporting Period ( <i>shareholder</i> )	32,696 Including: 32,332 holders of A Shares; 364 holders of H Shares
Total number of ordinary shareholders as at the end of the month prior to the date of the Annual Report ( <i>shareholder</i> )	31,145 Including: 30,781 holders of A Shares; 364 holders of H Shares
Total number of preference shareholders with voting rights restored as at the end of the Reporting Period ( <i>shareholder</i> )	/
Total number of preference shareholders with voting rights restored as at the end of the month prior to the date of the Annual Report ( <i>shareholder</i> )	/

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

### (II) Table of shareholdings of the top ten shareholders and the top ten shareholders of circulating shares (or shareholders without selling restrictions) as at the end of the Reporting Period

*Unit: Share*

#### *Shareholdings of the top ten shareholders*

Name of shareholder (full name)	Increase/ decrease during the Reporting Period	Total number of shares held as at the end of the Reporting Period	Percentage (%)	Number of shares held subject to selling restrictions	Number of shares pledged or frozen Nature of shares	Number	Nature of shareholder
YTO Group Corporation	0	410,690,578	41.66	0	Nil	0	State-owned legal person
HKSCC NOMINEES LIMITED	-74,080	388,037,319	39.36	0	Unknown	/	Overseas legal person
China Construction Bank Corporation Henan Province Branch	0	9,444,950	0.96	0	Unknown	/	Other
China Merchants Bank Co., Ltd. – Boseru CSI Central-SOEs' Structural Reform Exchange Traded Index Securities Investment Fund	3,374,200	3,374,200	0.34	0	Unknown	/	Other
Xu zuquan	1,000,000	3,000,000	0.30	0	Unknown	/	Domestic natural person
Hong Kong Securities Clearing Company Limited	79,029	2,874,447	0.29	0	Unknown	/	Overseas legal person
Hong Qun	1,400,720	1,400,720	0.14	0	Unknown	/	Domestic natural person
Industrial and Commercial Bank of China Limited – Yinhu CSI Central-SOEs' Structural Reform Exchange Traded Index Securities Investment Fund	1,260,700	1,260,700	0.13	0	Unknown	/	Other
Wang Yali	914,101	914,101	0.09	0	Unknown	/	Domestic natural person
Yang Zhihong	314,800	885,001	0.09	0	Unknown	/	Domestic natural person

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

### *Shareholdings of the top ten shareholders without selling restrictions*

Name of shareholders	Number of circulating shares without selling restrictions held	Class and number of share	
		Class	Number
YTO Group Corporation	410,690,578	Ordinary shares denominated in RMB	410,690,578
HKSCC NOMINEES LIMITED <i>(Note 1)</i>	388,037,319	Overseas listed foreign shares	388,037,319
China Construction Bank Corporation Henan Province Branch	9,444,950	Ordinary shares denominated in RMB	9,444,950
China Merchants Bank Co., Ltd. – Bosera CSI Central-SOEs' Structural Reform Exchange Traded Index Securities Investment Fund	3,374,200	Ordinary shares denominated in RMB	3,374,200
Xu zuquan	3,000,000	Ordinary shares denominated in RMB	3,000,000
Hong Kong Securities Clearing Company Limited <i>(Note 2)</i>	2,874,447	Ordinary shares denominated in RMB	2,874,447
Hong Qun	1,400,720	Ordinary shares denominated in RMB	1,400,720

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

Name of shareholders	Number of circulating shares without selling restrictions held	Class and number of share Class	Number
Industrial and Commercial Bank of China Limited – Yinhua CSI Central-SOEs' Structural Reform Exchange Traded Index Securities Investment Fund	1,260,700	Ordinary shares denominated in RMB	1,260,700
Wang Yali	914,101	Ordinary shares denominated in RMB	914,101
Yang Zhihong	885,001	Ordinary shares denominated in RMB	885,001

Explanation on connected relation or acting in concert of the aforesaid shareholders

Among the top ten shareholders and top ten shareholders without selling restrictions, YTO, the controlling shareholder of the Company, has no connected relationship with, nor is it a party acting in concert (as defined in the Administrative Measures on Acquisitions by Listed Companies) with, any other shareholders. The Company is not aware of any connected relationship among other shareholders, nor aware of any parties acting in concert among them as defined in the Administrative Measures on Acquisitions by Listed Companies.

Explanations on preference shareholders with / voting rights restored and number of shares held thereby

*Note 1:* The overseas listed foreign shares held by HKSCC NOMINEES LIMITED are held on behalf of various customers;

*Note 2:* The RMB ordinary shares held by Hong Kong Securities Clearing Company Limited are held on behalf of foreign investors who purchased RMB ordinary shares of the Company through Shanghai-Hong Kong Stock Connect.

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

### (III) Substantial shareholders' interests and short positions disclosed in accordance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")

As at 31 December 2018, the following shareholders of the Company (other than the Directors, Supervisors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Nature of interests	Number of shares held <sup>1</sup>	Number of underlying shares held under equity derivatives	Total number of shares interested <sup>1</sup>	Percentage of the relevant issued class of share capital <sup>1</sup> (%)	Percentage of the total issued share capital (%)	Type of share
YTO <sup>2</sup>	Beneficial owner	Beneficial interest	410,690,578 (L)	/	410,690,578 (L)	69.15 (L)	41.66 (L)	A Share

Note 1: (L) – Long position

Note 2: Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO, holding 410,690,578 A Shares of the Company.

## IV. CONTROLLING SHAREHOLDER AND ULTIMATE CONTROLLER

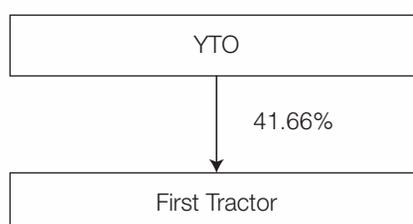
### (I) Controlling Shareholder

#### 1 Corporation

Name	YTO Group Corporation
Person in charge or legal representative	Li Xiaoyu
Date of establishment	6 May 1997
Principal business	Agricultural machinery, power machinery, vehicles and components industry
Equities interests (either controlling or participating) held in other Chinese and overseas listed companies during the Reporting Period	Nil
Other explanation	Nil

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

**2** *Block diagram of property right and controlling relationship between the Company and the controlling shareholders*

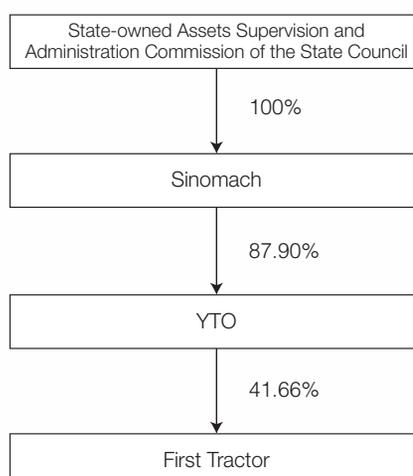


### (II) Ultimate Controller

**1** *Corporation*

Name            State-owned Assets Supervision and Administration Commission of the State Council

**2** *Block diagram of property right and controlling relationship between the Company and the ultimate controller*



## V. OTHER CORPORATE SHAREHOLDERS HOLDING OVER 10% OF SHARES

According to the register of shareholders provided by HKSCC Nominees Limited, the H Shares held by the shareholder of the Company, HKSCC NOMINEES LIMITED, holding 39.36% of H Shares, are held on behalf of various clients.

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

### VI. PUBLIC FLOAT

Pursuant to the published information and to the knowledge of the Directors, as at the date of this Annual Report, the Company has maintained the required public float under the Listing Rules of the Stock Exchange.

### VII. TAX CONCESSIONS

None of the holders of the Company's listed securities was entitled to any tax concessions for holding securities of the Company.

### VIII. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the PRC which would oblige the Company to offer new shares of the Company on a pro rata basis to its existing shareholders.

### IX. REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## PREFERENCE SHARES

The Company had no preference shares during the Reporting Period.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## I. CHANGE IN SHAREHOLDINGS AND REMUNERATION

### (I) Change in shareholdings and remuneration of incumbent and resigned Directors, Supervisors and senior management during the Reporting Period

Unit: Share

Name	Position	Gender	Age	Commencement date of tenure	End date of tenure	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in the number of shares held during the year	Reason for changes	Total remuneration (before tax) received from the Company during the Reporting Period (RMB'000)	Whether he/she received remuneration from related parties of the Company
Zhao Yanshui	/	Male	55	2018.10.29	2019.3.3	0	0	0	/	59.40	No
Wu Yong	Executive Director and Vice Chairman	Male	53	2018.10.29	2021.10.28	0	0	0	/	59.41	No
Zhu Weijiang	/	Male	47	2018.10.29	2019.3.3	0	0	0	/	53.51	No
Li Hepeng	Non-executive Director	Male	65	2018.10.29	2021.10.28	0	0	0	/	1.17	Yes (Note 1)
Xie Donggang	Non-executive Director	Male	62	2018.10.29	2021.10.28	0	0	0	/	1.42	Yes (Note 1)
Li Kai	Non-executive Director	Male	64	2018.10.29	2021.10.28	0	0	0	/	1.18	Yes (Note 1)
Zhou Honghai	Non-executive Director	Male	46	2018.10.29	2021.10.28	0	0	0	/	0	No
Yu Zengbiao	Independent non-executive Director	Male	63	2018.10.29	2020.5.28	0	0	0	/	8.91	No
Yang Mimi	Independent non-executive Director	Female	53	2018.10.29	2021.10.28	0	0	0	/	8.64	No
Wang Yuru	Independent non-executive Director	Female	64	2018.10.29	2021.10.28	0	0	0	/	1.81	No
Edmund Sit	Independent non-executive Director	Male	55	2018.10.29	2021.10.28	0	0	0	/	1.94	No
Zhang Jiabin	Chairman of the Board of Supervisors	Male	56	2018.10.29	2021.10.28	0	0	0	/	0	Yes (Note 1)
Tian Peng	Supervisor	Male	55	2018.10.29	2021.10.28	0	0	0	/	0	Yes (Note 1)
Xu Weilin	Supervisor	Male	56	2018.10.29	2021.10.28	0	0	0	/	0	Yes (Note 1)
Zhang Bin	Supervisor	Male	36	2018.10.29	2021.10.28	0	0	0	/	0	No
Wang Hongbin	Supervisor	Male	50	2018.10.29	2021.10.28	0	0	0	/	34.81	No
Yang Kun	Supervisor	Male	49	2018.10.29	2021.10.28	0	0	0	/	25.69	No
Liu Jiguo	General Manager	Male	54	2019.3.5	2021.10.29	0	0	0	/	46.51	No
Wang Kejun	Deputy General Manager	Male	54	2018.10.30	2021.10.29	0	0	0	/	45.70	No
Su Wensheng	Deputy General Manager	Male	50	2018.10.30	2021.10.29	0	0	0	/	51.85	No
Yao Weidong	/	Male	52	2018.10.30	2019.3.3	0	0	0	/	52.07	No
Yu Lina	Deputy General Manager and Secretary to the Board	Female	48	2018.10.30	2021.10.29	0	0	0	/	52.13	No
Wang Erlong	Resigned Executive Director and Vice Chairman	Male	54	2015.10.29	2018.8.29	0	0	0	/	49.61	Yes (Note 2)
Yin Dongfang	Resigned non-executive Director	Male	57	2015.10.29	2018.10.28	0	0	0	/	1.43	Yes (Note 1)
Wu Tak Lung	Resigned independent non-executive Director	Male	53	2015.10.29	2018.10.28	10,000	10,000	0	/	6.93	No
Xing Min	Resigned independent non-executive Director	Male	65	2015.10.29	2018.10.28	0	0	0	/	6.79	No
Li Pingan	Resigned Chairman of the Board of Supervisors	Male	54	2015.10.29	2018.10.28	0	0	0	/	33.74	No
Wang Yong	Resigned Supervisor	Male	50	2015.10.29	2018.10.28	0	0	0	/	5.08	No
Huang Ping	Resigned Supervisor	Male	50	2015.10.29	2018.10.28	0	0	0	/	5.55	No
Wang Jianjun	Resigned Staff Representative Supervisor	Male	42	2015.10.29	2018.10.28	0	0	0	/	32.99	No
Zhao Guozhong	Resigned Staff Representative Supervisor	Male	58	2015.10.29	2018.10.28	0	0	0	/	28.72	No
Song Yuping	Resigned Deputy General Manager	Male	54	2015.10.30	2018.8.10	0	0	0	/	47.77	No
Total	/	/	/	/	/	10,000	10,000	0	/	724.76	/

**Note 1:** During the Reporting Period, such Directors or Supervisors were employed in related parties of the Company and received remuneration.

**Note 2:** After resignation from the Company, Wang Erlong has worked with other related parties of the Company and received remuneration since September 2018.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### (II) Major work experience of Directors, Supervisors and senior management

Name	Major work experience
Zhao Yanshui	Born in April 1963, professor level senior engineer. During the Reporting Period, he served as Chairman, Chairman of the Strategy and Investment Committee under the Board, member of the Nomination Committee under the Board, and Chairman and Party Secretary of YTO, and concurrently served as the Vice President of China Association of Agricultural Machinery Manufacturing Industry and Chairman of Luoyang Intelligent Agricultural Equipment Research Institute Co., Ltd. Mr. Zhao joined YTO in 1983, and served as the Deputy General Manager, General Manager and Vice Chairman of the Company, and the Deputy Chief Engineer, Deputy General Manager and Deputy Party Secretary of YTO. Mr. Zhao studied in the Jiangsu Institute of Technology and Jiangsu University with a doctorate in engineering, and served as a visiting scholar to pursue advanced studies in Hokkaido University and Kyoto University in Japan for one year in 1994 and 2001, respectively. Mr. Zhao resigned as a Director, Chairman and member of special committees under the Board of the Company on 3 March 2019.
Wu Yong	Born in May 1965, senior economist and currently serves as Vice Chairman, member of the Strategy and Investment Committee under the Board, and Deputy Party Secretary of YTO. Mr. Wu joined YTO in 1987, and served as the Party Secretary, Secretary of the Discipline Inspection Commission and General Manager of the Company, and the member of the Standing Committee of the Communist Party, Deputy General Manager, and Secretary of the Discipline Inspection Commission of YTO. Mr. Wu studied in Henan University of Economics and Law and Hong Kong Polytechnic University with a master degree of science. Mr. Wu has extensive experience in business operation, human resource management and strategic planning.
Zhu Weijiang	Born in April 1971, professor level senior engineer. During the Reporting Period, he served as an Executive Director, member of the Strategy and Investment Committee under the Board and General Manager of the Company, and Deputy Party Secretary of YTO. Mr. Zhu joined YTO in 1992 and successively served as an assistant to the general manager of YTO (Luoyang) Engineering Machinery Co., Ltd., deputy head of the sales department (taking charge of work) and deputy factory manager of No. 3 Assembling Factory of the Company, deputy general manager of automotive division of YTO, assistant to the general manager of agricultural equipment division and general manager of the agricultural equipment marketing center of the Company, and the General Manager Assistant and Deputy General Manager of the Company. Mr. Zhu graduated from Chongqing University and Henan University of Science and Technology with a bachelor's degree in engineering and a master's degree in engineering. On 3 March 2019, Mr. Zhu resigned as a Director, General Manager and member of special committees under the Board of the Company.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Li Hepeng	Born in March 1954, senior engineer, Non-Executive Director, member of the Remuneration Committee under the Board of the Company, Director of the Sinomach Jinggong Company Limited, Bearing Science & Technology Co., Ltd. and YTO. Mr. Li served as the Deputy Director and Director of the Tianjin Institute of Mechanical Engineering, President and Party Secretary of Tianjin Research Institute of Mechanical Engineering, the General Manager and Party Secretary of China Mechanical Engineering Corporation, Party Secretary and Deputy Chairman of China Sinomach Heavy Industry Corporation Limited, and Director of Zhengzhou Institute of Abrasives Grinding. Mr. Li studied in Tianjin Open University and Tianjin University Postgraduate Course in Business Administration. Mr. Li has extensive experience in corporate management, scientific research management, hydraulic transmission, etc.
Xie Donggang	Born in November 1956, researcher level senior engineer, currently serves as the Non-Executive Director, member of Strategy and Investment Committee under the Board of the Company, and director of YTO. Mr. Xie currently also serves as a director of China National Erzhong Factory and an executive director of Sino-Belarusian Industrial Park Co., Ltd. Mr. Xie served as Deputy Director, Director and Party Secretary of the Xi'an Institute of Heavy Machinery, the President and Party Secretary of China National Heavy Machinery Research Institute, and Chairman, Party Secretary and General Manager of China National Heavy Machinery Research Institute Company Limited, Mr. Xie studied in Northeast Heavy Machinery College and Chongqing University with a Master's degree in engineering. Mr. Xie has extensive experience in operation management, metallurgical machinery design, etc.
Li Kai	Born in September 1954, professor level senior engineer, currently serves as the Non-Executive Director, member of the Remuneration Committee under the Board of the Company, and Director of YTO. Mr. Li served as the Vice President and Executive Vice-President of the No. 6 Design Institute of Machinery Industry, Director and Standing Deputy General Manager of the SIPPR Engineering Group Company Limited. Mr. Li studied in the Northeast Heavy Machinery College. Mr. Li has extensive experience in engineering design, engineering project management and forging technology, etc.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Zhou Honghai	<p>Born in March 1972, senior political engineer, currently serves as the Non-executive Director and member of the Audit Committee under the Board of the Company, the secretary of Party general branch, Chairman and General Manager of Luoyang State Owned Assets Management Co., Ltd (洛陽市國資國有資產經營有限公司), the director of YTO. Mr. Zhou served as the head of the president office of ChunDu Group (春都集團), the Deputy Party Secretary (in charge of the general affairs of the Party committee) of Xuangong Hotel (旋宮大廈) in Luoyang, the Deputy Party Secretary and Deputy General Manager of Luoyang Baiwei Group (洛陽百味集團), the deputy head (taking charge of work) of the administration department of Luoyang Mining Group (洛陽礦業集團), the head of corporate management department of Luoyang Guohong Investment Group (洛陽國宏投資集團). Mr. Zhou had studied in Henan University and holds a master's degree. Mr. Zhou has extensive experience in corporate restructuring and corporate management.</p>
Yu Zengbiao	<p>Born in September 1955, a professor of Tsinghua University, doctoral tutor, is the Independent Non-Executive Director, Chairman of the Remuneration Committee under the Board, member of the Audit Committee of the Company, Independent Director of Tsingtao Brewery Company Limited, HONY Yuanfang Fund Management Co., Ltd. and Suzhou Green Harmonic Transmission Technology Co., Ltd. Mr. Yu studied in Hebei University, Xiamen University and University of Illinois with a PhD degree in economics (accounting) and Chinese CPA qualifications, and is familiar with finance, accounting and enterprise performance evaluation, etc.</p>
Yang Minli	<p>Born in October 1965, currently serves as the Independent Non-Executive Director, Chairman of the Nomination Committee and member of the Strategy and Investment Committee under the Board of the Company, director of China Agricultural Mechanization Development Research Center, professor and doctoral tutor of the College of Engineering of China Agricultural University. Ms. Yang currently also serves as Deputy Secretary-General of the Panel of Promotion of Complete Mechanization of Major Crop Production under the Ministry of Agriculture and Rural Affairs, an adjunct professor at Northwest Agriculture and Forestry University, visiting professor of the College of Engineering of Northeast Agricultural University, Director of Centre for Sustainable Agricultural Mechanization of the United Nations, a member of the USAID Expert Committee for "Moderate Mechanization Project", a member of the Bologna Club, a member of the American Society of Agricultural and Biological Engineers, Standing Director of Chinese Society for Agricultural Machinery, Chairman and Secretary-General of Agricultural Mechanization Branch, Director of Chinese Society of Agricultural Engineering. Ms. Yang was a senior visiting scholar at Iowa State University in the USA, and is experienced in the field of development strategy, planning and policy for agricultural mechanization and agricultural machinery equipment.</p>

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Wang Yuru	<p>Born in September 1954, Ph.D. in Economics, currently serves as the Independent Non-executive Director and a member of the Nomination Committee and the Remuneration Committee under the Board of the Company, and a professor and PhD supervisor at the School of Economics of Nankai University. Ms. Wang currently is a director of the Tianjin Chapter of Western Returned Scholars Association, a consultant of the Corporate History Chapter of Chinese Business History Society (中國商業史學會), a director of Chinese Economic History Society and the deputy head of Professional Committee on Modern Economic History (近代經濟史專業委員會). Ms. Wang graduated from Nankai University and did research in Sophia University, Waseda University and Hitotsubashi University in Japan. Ms. Wang has been engaged in the studies on Chinese economic development, financial history and business history for years and is familiar with economics, finance and corporate management.</p>
Edmund Sit	<p>Born in November 1963, is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. In addition, Mr. Sit is also a member of Association of International Certified Financial Consultants and an associate member of Society of Chinese Accountants &amp; Auditors. He currently serves as the Independent Non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee under the Board of the Company. He has over 30 years' experience in auditing, finance, management accounting, personnel management, corporate finance, company secretary and listing. Mr. Sit graduated from Hong Kong Baptist University and holds a bachelor's degree (merit) and master's degree of business administration. He has worked for KPMG, Ernst &amp; Young, System Pro Uarco Business Forms Ltd, Logo S.A., Xiang Lu Industries Ltd, Chubb Hong Kong Ltd, Johnson Controls Hong Kong Ltd, C &amp; C Joint Printing Co., (HK) Ltd and Sino Fame International Group (譽中國際集團). Mr. Sit had also worked for the following listed companies: Tianneng Power International Limited (HKEX 0819), Beijing Media Corporation Limited (HKEX 1000), SMI Holdings Group Limited (HKEX 0198), Wong's International Holdings Limited (HKEX 0099) and Beijing Gas Blue Sky Holdings Limited (HKEX 6828).</p>
Zhang Jiabin	<p>Born in July 1962, senior political engineer, currently serves as the Chairman of the Board of Supervisors of the Company, a member of the Standing Committee of the Communist Party and Secretary of the Discipline Inspection Commission of YTO. Mr. Zhang joined YTO in 1986, successively served as the Secretary of Youth League Committee of YTO, the Party Secretary, Secretary of the Discipline Inspection Commission, chairman of the trade union of No. 2 Assembly Plant of YTO (一拖股份第二裝配廠), the manager of mid-powered and low-powered wheeled tractors branch of YTO (一拖股份中小輪拖分公司), deputy general manager of the Agricultural Equipment Division of YTO Company, the vice chairman of the trade union and the assistant to the general manager of YTO. Mr. Zhang studied in the Correspondence College of Party School of the Central Committee of the Communist Party of China, majoring in Business Administration, and has extensive experience in discipline inspection and corporate management.</p>

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Tian Peng	Born in August 1963, senior political engineer, currently serves as a Supervisor of the Company, assistant to the Party secretary, chairman of the trade union and employee representative director of YTO. Mr. Tian joined YTO in 1986, and served as deputy director of the publicity department of YTO, director and secretary of the Party general branch of the CPC of Dongfanghong (Luoyang) Cultural Transmission Center as well as executive vice chairman of the Trade Union of YTO, etc. Mr. Tian studied as a major in Politics in the Politics Department of Zhengzhou University. Mr. Tian has extensive experience in corporate culture building, trade union affairs and business management.
Xu Weilin	Born in August 1962, economist, currently serves as the Supervisor of the Company, Deputy Secretary of the Discipline Inspection Commission and the Director of the Supervision Division of YTO. Mr. Xu joined YTO in 1982, and served as the Party Secretary, Plant manager and staff representative Supervisor of No. 1 Assembly Plant of First Tractor. Mr. Xu studied in Zhengzhou University, Jiangsu Institute of Technology and Henan University of Science and Technology. Mr. Xu has extensive experience in auditing supervision, enterprise management, etc.
Zhang Bin	Born in June 1982, postgraduate, currently serves as a Supervisor of the Company, deputy general manager of Luoyang State-Owned Assets Operation Company Limited and Supervisor of YTO. Mr. Zhang had served as secretary to the general manager of Luoyang Kuangye Group Co., Ltd., vice chairman of the trade union, office director and secretary to party branch of Zhenping Mining Co., Ltd. under Henan Luoyang Mining Group, chairman of the trade union and assistant to the general manager of Songxian Mining Co., Ltd. under Luoyang Nonferrous Group as well as deputy director of business administration department of Luoyang Nonferrous Mining Group, successively. Mr. Zhang studied business administration at Zhengzhou University and a postgraduate program on social security (human resource management) at Sichuan University. Mr. Zhang has extensive experience in human resource management.
Wang Hongbin	Born in October 1968, holds a bachelor's degree and the title of senior engineer. He currently serves as a staff representative Supervisor of the Company, the Party Secretary and deputy factory manager of high-powered tractors assembly factory of the Company. Mr. Wang had served as a general manager assistant, a deputy general manager, the Party Secretary, the Secretary of the Discipline Inspection Commission and the chairman of the labor union of Luoyang Tractors Research Institute Company Limited, and the factory manager and the Party Secretary of No. 1 assembly factory of the Company.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Yang Kun	Born in January 1969, holds a bachelor's degree and the title of economist. He currently serves as a staff representative Supervisor of the Company, the Party Secretary, the deputy factory manager, the Secretary of the Discipline Inspection Commission and the chairman of the labor union of the mid- and low-powered wheeled tractors assembly factory of the Company. Mr. Yang had served as a deputy factory manager of the No. 1 assembly factory of the Company, the head of domestic sales department of the agricultural equipment division of the Company, the deputy general manager (taking charge of work), the Party Secretary and the Secretary of the Discipline Inspection Commission and the chairman of the labor union of the agricultural equipment marketing center of the Company, and the Party Secretary, the Secretary of the Discipline Inspection Commission, the chairman of the labor union and concurrently served as a deputy head of the procurement center of the Company.
Liu Jiguo	Born in December 1964, professor level senior engineer, served as the Deputy General Manager of the Company during the Reporting Period and currently serves as the General Manager of the Company. Mr. Liu joined YTO in 1987, and served as the General Manager Assistant, Deputy General Manager and Safety Director of YTO, and General Manager and Director of the Company. Mr. Liu studied in Northeast Heavy Machinery College and Jiangsu University with a Bachelor degree in Engineering and a Master degree in Engineering. Mr. Liu has extensive experience in corporate management, production and management, financial operation, etc.
Wang Kejun	Born in December 1964, senior engineer, currently serves as the Deputy General Manager of the Company. Mr. Wang joined YTO in July 1985, and served as the General Manager Assistant and Deputy General Manager of YTO, and the Director of the Company. Mr. Wang studied in Hunan University and Jiangsu University with a Master's degree in Engineering. Mr. Wang has extensive experience in marketing management, power engineering, etc.
Su Wensheng	Born in August 1968, senior engineer, currently serves as the Deputy General Manager of the Company. Mr. Su joined YTO in 1991, and served as the General Manager Assistant of the Company, etc. Mr. Su studied in Gansu University of Technology, Jiangsu University, Henan University of Science and Technology with a Bachelor degree in Engineering and a Master degree in Engineering. Mr. Su has extensive experience in production operation, enterprise management, etc.
Yao Weidong	Born in July 1966, senior accountant, served as the Financial Controller of the Company during the Reporting Period. Mr. Yao joined YTO in 1989, and served as the Deputy Chief Accountant, Chief Accountant, etc. Mr. Yao studied in the Shaanxi Institute of Mechanical Engineering, and the postgraduate course of Management Science and Engineering of University of Science and Technology of China. Mr. Yao resigned as the Financial Controller of the Company on 3 March 2019.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Yu Lina	Born in August 1970, economist, level two corporate legal advisers, with the qualification of lawyer, currently serves as the Deputy General Manager and Secretary to the Board of the Company. Ms. Yu joined YTO in 1992, and served as the Director of Investor Relations and other positions of the Company. Ms. Yu studied in the Zhongnan University of Economics and Law and China University of Political Science and Law with a Bachelor degree in Law and a Master degree in Law. Ms. Yu has extensive experience in enterprise management, corporate governance and capital operation, etc.

## II. APPOINTMENTS OF INCUMBENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

### (I) Positions held at corporate shareholders

Name	Name of shareholder	Positions held at corporate shareholders
Wang Erlong	YTO Group Corporation	Party Secretary, Vice Chairman and Financial Controller
Yin Dongfang	YTO Group Corporation	Director
Li Pingan	YTO Group Corporation	Supervisor

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### (II) Positions held at other entities

Name	Name of other entity	Positions held at other entities
Wang Erlong	Sinomach Capital Holdings Limited	Director
Xing Min	China Internal Combustion Engine Industry Association	Vice President and Secretary General
Xing Min	Zhongyuan Components Group Company Limited	Independent director
Xing Min	Wuxi Weifu High-Technology Group Company Limited	Independent director
Xing Min	Hunan Tianyan Machinery Company Limited	Independent director
Wu Tak Lung	Beijing Media Corporation Limited	Independent director
Wu Tak Lung	Kam Hing International Holdings Limited	Independent director
Wu Tak Lung	China Machinery Engineering Corporation	Independent director
Wu Tak Lung	Sinomax Group Limited	Independent director
Wu Tak Lung	Olympic Circuit Technology Co., Ltd.	Independent director
Wu Tak Lung	Sinotrans Shipping Ltd.	Independent director
Wu Tak Lung	Henan Jinma Energy Company Limited	Independent director
Wang Yong	China University of Political Science and Law	Director, professor and doctoral tutor of the Institute of Commercial Law of School of Law
Wang Yong	Shengbang Microelectronics (Beijing) Company Limited	Independent director
Wang Yong	COFCO Property (Group) Co., Ltd.	Independent director
Wang Yong	Zhongke Chuangda Software Technology (Beijing) Company Limited	Independent director
Wang Yong	Beijing Xinwei Communication Technology Company Limited	Independent director
Huang Ping	Vanda Accounting Firm of Vanda Group	Partner
Huang Ping	Zhuhai Zhongfu Industrial Company Limited	Independent director

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process for remuneration of Directors, Supervisors and senior management	The remuneration packages are proposed by the Remuneration Committee under the Board and, after having been considered and approved by the Board, submitted for shareholders' approval at a general meeting. The Remuneration Committee under the Board of the Company sets out the "Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company" and submitted it to the Board for approval. The annual remuneration of senior management of the Company is determined by the remuneration committee under the Board in accordance with the "Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company".
Basis for determining the remuneration of Directors, Supervisors and senior management	The remuneration of Directors, Supervisors and senior management members are determined based on remuneration standard of the industry and with reference to the factors including the Company's remuneration system and operating results for current year.
Remuneration paid to Directors, Supervisors and senior management	During the Reporting Period, the Company paid RMB7.2476 million to its Directors, Supervisors and senior management.
Total remuneration received by all Directors, Supervisors and senior management as at the end of the Reporting Period	RMB7.2476 million

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Reason for change
Zhu Weijiang	Director, General Manager	Election	Re-election of the Board, appointment
Zhou Honghai	Non-executive Director	Election	Re-election of the Board
Wang Yuru	Independent non-executive Director	Election	Re-election of the Board
Edmund Sit	Independent non-executive Director	Election	Re-election of the Board
Zhang Jiaxin	Chairman of the Board of Supervisors	Election	Re-election of the Board of Supervisors
Tian Peng	Supervisor	Election	Re-election of the Board of Supervisors
Zhang Bin	Supervisor	Election	Re-election of the Board of Supervisors
Wang Hongbin	Staff Representative Supervisor	Election	Re-election of the Board of Supervisors
Yang Kun	Staff Representative Supervisor	Election	Re-election of the Board of Supervisors
Wang Erlong	Former Vice Chairman	Resigned	Work change
Yin Dongfang	Former non-executive Director	Resigned	Expiration of term of office of the Board
Li Pingan	Former Chairman of the Board of Supervisors	Resigned	Expiration of term of office of the Board of Supervisors
Wang Yong	Former Supervisor	Resigned	Expiration of term of office of the Board of Supervisors
Huang Ping	Former Supervisor	Resigned	Expiration of term of office of the Board of Supervisors
Wang Jianjun	Former Staff Representative Supervisor	Resigned	Expiration of term of office of the Board of Supervisors
Zhao Guozhong	Former Staff Representative Supervisor	Resigned	Expiration of term of office of the Board of Supervisors
Xing Min	Former Independent non-executive Director	Resigned	Expiration of term of office of the Board
Wu Tak Lung	Former Independent non-executive Director	Resigned	Expiration of term of office of the Board
Song Yuping	Former Deputy General Manager	Dismissal	Work change

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### V. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT FROM THE END OF THE REPORTING PERIOD TO THE DATE OF THIS ANNUAL REPORT

On 3 March 2019, Mr. Zhao Yanshui resigned as the Chairman, an executive Director and the chairman of the Strategy and Investment Committee and a member of the Nomination Committee due to job allocation; Mr. Zhu Weijiang resigned as an executive Director, a member of the Strategy and Investment Committee and the General Manager of the Company due to job allocation; and Mr. Yao Weidong resigned as the Financial Controller of the Company due to job allocation. On 5 March 2019, the Company held the fourth meeting of the eighth session of the Board, at which the Company appointed Mr. Liu Jiguo as the General Manager of the Company and nominated each of Mr. Li Xiaoyu and Mr. Liu Jiguo as a candidate for an executive Director. Mr. Wu Yong, vice Chairman of the Company, shall perform the duties of chairman until a new chairman is elected by the Board of the Company. For details, please refer to the Announcement of First Tractor Company Limited in relation to the Resignation of the Chairman, the Announcement of First Tractor Company Limited in relation to the Resignation of Directors, General Manager and Financial Controller, Nomination of Candidates for Directors and Appointment of the General Manager and the Announcement of First Tractor Company Limited in relation to the Resolution of the Fourth Meeting of the Eighth Session of the Board all published by the Company on the website of the Shanghai Stock Exchange on 6 March 2019, and the Announcement in relation to the Resignation of the Chairman and an Executive Director, the Resignation of the General Manager and an Executive Director, the Resignation of Financial Controller, Appointment of the General Manager and Proposed Appointment of Executive Directors published by the Company on the website of the Stock Exchange on 5 March 2019.

### VI. EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

#### (I) Employees

Number of existing employees of the parent company	5,310
Number of existing employees of major subsidiaries	3,178
Total existing employees	8,488
Number of retired employees who are pensioned by the parent company and major subsidiaries	15,026

#### Staff composition

Category	Number of persons
Production staff	4,886
Sales staff	641
Technical staff	1,422
Administrative staff	1,382
Service staff	157
Total	8,488

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### Educational background

<b>Education level</b>	<b>Number of persons (person)</b>
Postgraduate and above	298
Undergraduate	2,049
Diploma	1,628
Below diploma	4,513
Total	<u>8,488</u>

### (II) Remuneration policy

The Company adheres to the principle of performance-based incremental distribution with the focus on “strategic human resources” and “core human resources”. By improving the pertinence and effectiveness of incentives to marketing staff, the Company has established a market-oriented incentive mechanism for R&D technicians, and implemented joint assessment through all the links including production, marketing and R&D of the Company, therefore achieved a new situation in which marketing drove production and R&D promoted product transformation and upgrading, providing support for the sustainable development of the Company.

The Company has established a wide range of incentives, which implemented medium-and long-term incentives policy for middle and senior management; the Company has broadened channels for the growth of all kinds of talents, continuously strengthened the construction of multi-channel employee growth mechanism, set up chief experts, Class I expert, Class II expert, chief technician, director, manager and other different levels of professional channels, continued to implement the multi-channel talent incentives to fully mobilize the enthusiasm and creativity of all categories of personnel, so as to provide talent support for enterprise development.

### (III) Training plan

The Company has actively carried out training for all staff, with the starting point and goal of enhancing the quality of staff, further improved the staff training development system, curriculum development system and trainer team building, carried out various types of targeted training of different levels and systems, so as to constantly optimize the knowledge structure and skills of employees. The Company also has proactively conducted special trainings for newly hired employees, youth backbone staff, reserve cadres, etc., continued to explore training models that are suitable to the characteristics of the new generation of employees, and guided young employees to develop career planning to accelerate their professionalization. Further, according to the strategic development requirements, the Company has organized special trainings on overseas business strategy development and other topics, broadening the vision of relevant employees in terms of overseas strategic development, and activating the thinking on the promotion of overseas business development. During the Reporting Period, the Company organized an accumulative total of more than 1,000 training courses, in which more than 30,000 employees were trained.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### VII. OTHER EXPLANATIONS

#### 1. Directors' and Supervisors' rights to acquire shares or debentures

During the Reporting Period, no rights were granted to any Directors, Supervisors, or their respective spouse or minor children, which would have enabled them to acquire benefits by means of acquisition of shares in or debentures of the Company or any other corporations; nor was the Company, its subsidiaries or holding company, or its holding company's subsidiaries a party to any arrangement, which would have enabled the Directors or Supervisors to acquire such rights in the Company or any other corporations.

#### 2. Directors', Supervisors' and Chief executives' interests and short positions in the shares, underlying shares and debentures

As at 31 December 2018, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests considered or deemed to be held by such Directors, Supervisors and chief executives under provisions such as the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

Name	The Company/ associated corporation	Capacity	Nature of interests	Number of shares held	Total number of shares interested	Percentage of the relevant issued class of share capital (%)	Percentage of the total issued share capital of the Company (%)	Class of share
Wu Tak Lung	The Company	Beneficial owner	Beneficial interest	10,000 (Long position)	10,000 (Long position)	0.0026	0.0010	H Share

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### **3. Directors' and Supervisors' service contracts**

During the Reporting Period and up to the date of the Annual Report, except as disclosed in this section, none of the Directors or Supervisors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

### **4. Interests of Directors, Supervisors and entity connected with them (as defined in the listing rules of the stock exchange) in material transactions, arrangements and contracts**

During the Reporting Period and up to the date of the Annual Report, save as disclosed in this section, none of the Directors, Supervisors or entity connected with them (as defined in the Listing Rules of the Stock Exchange) had any direct or indirect material interest in any transaction, arrangement or contract of significance to the business of the Company to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

### **5. Responsibilities of Directors and Senior Management**

No permitted indemnity provision was in force during the Reporting period.

The Company has arranged appropriate insurance to cover the liabilities in respect of legal action against the Directors, Supervisors and senior management of the Company that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis.

## CORPORATE GOVERNANCE

### I. EXPLANATION ON CORPORATE GOVERNANCE RELATED SITUATION

During the Reporting Period, the Company a standardized and comprehensive corporate governance structure in accordance with the “Company Law”, “Securities Law”, “Code of Corporate Governance for Listed Companies”, “Rules Governing the Listing of Stocks on Shanghai Stock Exchange”, “Listing Rules of the Hong Kong Stock Exchange “and other laws, regulations, regulatory documents and the domestic and overseas regulatory requirements of the place of listing. The shareholders’ meeting, the board of directors and the board of supervisors operated normatively and effectively in accordance with the “Articles of Association” and various rules of procedure of the Company, and the mutual check and balance and concerted development among decision-making bodies, supervisory bodies and management of the Company ensured compliant operation. During the Reporting Period, the Company strictly complied with relevant regulations to constantly improve the corporate governance structure, enhanced and implemented the internal control system of the Company. The corporate governance of the Company has been in line with the requirements of corporate governance of the CSRC for listed companies.

1. On 28 August 2018, the Company convened the first extraordinary shareholders’ meeting in 2018 to consider and approve the resolution on amending the “Articles of Association” and “Procedural Rules for Meetings of the Board” of the Company and completed the important work of writing the Party building affairs into the “Articles of Association”.
2. During the Reporting Period, the Company convened 5 general meetings (including 1 A Share class meeting and 1 H Share class meeting). The procedures for convening and holding general meetings complied with the requirements as set out in the “Articles of Association” and the “Procedural Rules for General Meetings”, which ensures the equal status enjoyed by all the share holders of the Company, especially medium and minority shareholders, and all shareholders shall be entitled to fully exercise their own rights. The controlling shareholders exercised their rights as capital contributors at general meetings by virtue of the law and there were no conducts which went beyond the authority granted thereupon or interrupted the operation decisions and activities of the Company. During the Reporting Period, there were no conducts by the controlling shareholders of the Company which infringed and damaged the interests of the Company and other shareholders by their special status.
3. During the Reporting Period, upon the expiration of the term of office of the seventh session of the Board and the Board of Supervisors, the Company conducted re-election in an organized manner in accordance with law, and elected the eighth session of the Board and the Board of Supervisors and the special committees of the Board. All the Directors of the Company were in strict compliance with the requirements of the “Articles of Association” and “Procedural Rules for Meetings of the Board” of the Company and other laws and regulations, to give independent, objective and fair judgment on the resolutions considered by the Board with their expertise and skill in an honest, dedicated and diligent manner, and exercised their rights and performed their duties according to the law. All the Supervisors were in compliance with the requirements of the “Articles of Association” and “Procedural Rules for Meetings of the Board of Supervisors” and other laws and regulations, to perform their duties for the interests of all shareholders with a serious and responsible attitude to supervise the financial position, ordinary connected transaction and the performance of duties by the Directors and senior management of the Company according to the law and regulation.

## CORPORATE GOVERNANCE (CONTINUED)

4. The Company strictly complied with the “Code of Corporate Governance for Listed Companies” to perform its obligation of information disclosure, and timely disclosed relevant information including the regular reports and temporary announcement in a fair, accurate and completed way strictly based on a fair, objective, and open principles. The Company strictly implemented the “Management System for Inside Information and Insiders”. As such, insider information are discussed, transmitted, reviewed and disclosed in a standardized and legal manner and were prudently and properly kept confidential. No insider was benefited illegally in the course of transactions with inside information and in turn damaged the interests of the Company and all shareholders.

## II. BRIEFS OF GENERAL MEETINGS

<b>Session of meeting</b>	<b>Date</b>	<b>Inquiry index for the designated website for publishing the voting results</b>	<b>Date of publication of the voting results</b>
2017 Annual General Meeting, 2018 First A Share Class Meeting and 2018 First H Share Class Meeting	29 May 2018	“Announcement of First Tractor Company Limited on Resolution of 2017 Annual General Meeting, 2018 First A Share Class Meeting and 2018 First H Share Class Meeting” published on the website of the Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">www.sse.com.cn</a> ) and “Results of the 2017 Annual General Meeting, H Share Class Meeting And A Share Class Meeting All Held On 29 May 2018” published on the website of the Stock Exchange ( <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> )	30 May and 29 May 2018
2018 First Extraordinary General Meeting	28 August 2018	“Announcement of First Tractor Company Limited on Resolution of 2018 First Extraordinary General Meeting” published on the website of the Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">www.sse.com.cn</a> ) and “Poll Voting Results of the Extraordinary General Meeting Held On 28 August 2018” published on the website of the Stock Exchange ( <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> )	29 August and 28 August 2018
2018 Second Extraordinary General Meeting	29 October 2018	“Announcement of First Tractor Company Limited on Resolution of 2018 Second Extraordinary General Meeting” published on the website of the Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">www.sse.com.cn</a> ) and “Poll Voting Results of the Extraordinary General Meeting Held On 29 October 2018” published on the website of the Stock Exchange ( <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> )	30 October and 29 October 2018

## CORPORATE GOVERNANCE (CONTINUED)

## Explanation on General Meetings

During the Reporting Period, resolutions presented at the 2017 Annual General Meeting, 2018 First A Share Class Meeting, the 2018 First H Share Class Meeting, the 2018 First Extraordinary General Meeting and the 2018 Second Extraordinary General Meeting of the Company were all approved.

### III. PERFORMANCE OF DUTIES BY DIRECTORS

#### (I) Attendance of Board meetings and general meetings by Directors

Name	Independent director of not	Required attendance for the year	Attendance at Board meetings			Absence	Attendance at general meetings	
			Attendance by physical presence	Attendance by telecommunication	Attendance by proxy		Absence from two consecutive meetings	Attendance at general meetings
Zhao Yanshui	No	10	9	6	1	0	No	4
Wu Yong	No	10	10	6	0	0	No	5
Zhu Weijiang	No	3	3	1	0	0	No	/
Li Hepeng	No	10	10	6	0	0	No	1
Xie Donggang	No	10	10	6	0	0	No	2
Li Kai	No	10	10	6	0	0	No	2
Zhou Honghai	No	3	2	1	1	0	No	/
Yu Zengbiao	Yes	10	9	6	1	0	No	3
Yang Minli	Yes	10	9	6	1	0	No	2
Wang Yuru	Yes	3	3	1	0	0	No	/
Edmund Sit	Yes	3	3	1	0	0	No	/
Wang Erlong	No	5	5	3	0	0	No	3
Yin Dongfang	No	7	7	5	0	0	No	5
Xing Min	Yes	7	6	5	1	0	No	0
Wu Tak Lung	Yes	7	6	5	1	0	No	0

Number of Board meetings convened during the year	10
Among which: number of physical meetings	4
Number of meetings held by means of telecommunication	6
Number of meetings convened on site and by means of telecommunication	0

## CORPORATE GOVERNANCE (CONTINUED)

### (II) Independent Directors' objection to relevant matters of the Company

During the Reporting Period, none of the independent non-executive Directors of the Company raised any objection to resolutions proposed at Board meetings or meetings of the Company other than Board meetings. For details of performance of duties by independent non-executive Directors, please refer to the "Report on Performance of Duties of the Independent Directors" issued by the Company on the website of the Shanghai Stock Exchange and in the overseas regulatory announcement issued by the Company on the website of the Stock Exchange on 29 March 2019.

## IV. DETAILS FOR DISCLOSURE OF MATERIAL OPINIONS AND SUGGESTION AND OBJECTION RAISED IN PERFORMANCE OF DUTIES IN SPECIAL COMMITTEES UNDER THE BOARD DURING THE REPORTING PERIOD

There are four special committees under the Board, namely the Strategy and Investment Committee, Audit Committee, Nomination Committee and Remuneration Committee. The term of office of each special committee of the seventh session of the Board expired on 28 October 2018. On 30 October 2018, the resolution on the composition of each special committees of the eighth session of the Board of the Company was considered and approved at the first meeting of the eighth session of the Board, by which the Company re-elected each special committees of the eighth session of the Board in an organized manner. All members of each of the committee had considered each Director's professional background and experience and the composition requirements set out in the "Code of Corporate Governance for Listed Companies" of the CSRC and the "Code on Corporate Governance" of the Stock Exchange, among which the Audit Committee, Nomination Committee and Remuneration Committee are all chaired by independent non-executive Directors while the members are mostly non-executive Directors of the Company.

### (I) Remuneration Committee

The Remuneration Committee of the eighth session of the Board of the Company consists of Mr. Yu Zengbiao (independent non-executive Director and Chairman of the Remuneration Committee), Mr. Li Hepeng (non-executive Director), Mr. Li Kai (non-executive Director), Ms. Wang Yuru (independent non-executive Director) and Mr. Edmund Sit (independent non-executive Director).

Duties and operation of the Remuneration Committee are:

- (1) to make recommendations to the Board on the Company's remuneration policy and structure for Directors, Supervisors and senior management, the remuneration of non-executive Directors and the remuneration packages of individual executive Directors and senior management as well as on matters including the establishment of a standard and transparent procedure for developing remuneration policy;
- (2) to review and approve the management's remuneration proposals; compensation payable to executive Directors and senior management for any loss or termination of office; and compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- (3) to supervise the implementation of the Company's remuneration policy to ensure that no Director or any of his associates is involved in deciding his own remuneration.

## CORPORATE GOVERNANCE (CONTINUED)

Details of the Directors, the Supervisors and senior management's remuneration are set out in Section VIII of this Annual Report, "Directors, Supervisors and Senior Management and Employees".

During the Reporting Period, the Remuneration Committee of the seventh session of the Board held two meetings. In particular, the first meeting was held on 28 August 2018 to consider the remuneration proposal of directors of the eighth session of the Board and supervisors of the eighth session of the Board of Supervisors of the Company; and the second meeting was held on 25 October 2018 to consider and approve the performance appraisal results of the senior management of the Company for 2017.

### **(II) Nomination Committee**

As at the date of this Annual Report, the Nomination Committee of the eighth session of the Board of the Company is chaired by Ms. Yang Minli (independent non-executive Director) with Ms. Wang Yuru (independent non-executive Director) as a member.

Duties and operation of the Nomination Committee are set out as follows:

- (1) to review the structure, size and composition of the Board based on the operating activities, asset scale and shareholding structure of the Company and make recommendations to the Board on any proposed changes to the Board in relation to implementation of the Company's corporate strategy;
- (2) to study the election criteria and procedures for Directors and managers of the Company and make recommendations to the Board;
- (3) to select appropriate candidates for Directors, managers and other senior management of the Company subject to the Board's approval pursuant to the proposals of the workgroup and to make recommendations to the Board with respect to the candidates for the Directors and managers;
- (4) to assess the independence of independent Directors; and
- (5) to make recommendations to the Board on the appointment or reappointment of Directors and the succession plan for Directors, in particular for the Chairman and the general manager.

During the Reporting Period, the Nomination Committee of the seventh session of the Board held two meetings. In particular, the first meeting was held on 7 August 2018 to consider the resolution on change of general manager of the Company, and the second meeting was held on 23 August 2018 to consider the resolution on nomination of directors to the eighth session of the Board.

## CORPORATE GOVERNANCE (CONTINUED)

### (III) Audit Committee

The Audit Committee of the eighth session of the Board of the Company consists of three members, including Mr. Edmund Sit and Mr. Yu Zengbiao (both being an independent non-executive Director) and Mr. Zhou Honghai (non-executive Director), and is chaired by Mr. Edmund Sit, among which Mr. Edmund Sit and Mr. Yu Zengbiao are accounting professionals. The composition of the Audit Committee of the seventh and eighth session of the Board is in compliance with the provisions under Rule 3.21 of the Listing Rules of the Stock Exchange.

Duties and operation of the Audit Committee are set out as follows:

- (1) to oversee the relationship between the external auditors and the Company, including but not limited to making recommendations to the Board on appointment, reappointment and removal of external auditors, approving the audit fee, terms of appointment and policies on non-audit services of external auditors, raising any queries in respect of their resignations or dismissals, and reviewing and monitoring the independence and objectivity of the external auditors and the effectiveness of audit process;
- (2) to review the financial reports of the Company as to whether they are in compliance with the accounting standards and relevant requirements in relation to financial reporting under the listing rules and other laws and regulations;
- (3) to regulate and review the effectiveness of the internal control system of the Company, the review scope covers the effectiveness and compliance of the Company's internal control system, financial controls, internal audits and risk management systems, etc.;
- (4) to review the Company's financial and accounting policies and practices; and
- (5) to study other topics defined by the Board.

## CORPORATE GOVERNANCE (CONTINUED)

During the Reporting Period, the Audit Committee under the Board convened five meetings, all the members attended all the on-site meetings and fully expressed their opinion. Details are set out below:

<b>Session of meeting</b>	<b>Date</b>	<b>Resolutions</b>	<b>Results</b>
First meeting in 2018	2018.1.17	<ol style="list-style-type: none"> <li>1. Plan for preparation and disclosure of annual report of the Company in 2017</li> <li>2. Plan for preparation of auditing of annual financial report of the Company in 2017</li> <li>3. Work proposal for preparation of annual internal control evaluation of the Company in 2017</li> </ol>	All were passed
Second meeting in 2018	2018.3.23	<ol style="list-style-type: none"> <li>1. The annual report and audited financial report of the Company in 2017</li> <li>2. The annual internal control evaluation report of the Company in 2017</li> <li>3. Determination of auditor's remuneration in 2017 and recommendations on the appointment of the financial advisor and internal control auditor of the Company in 2018</li> <li>4. The performance report of the Audit Committee under the Board in 2017</li> </ol>	
Third meeting in 2018	2018.4.23	The first quarterly report of the Company in 2018	
Fourth meeting in 2018	2018.8.18	<ol style="list-style-type: none"> <li>1. The interim report of the Company in 2018</li> <li>2. The execution report on connected transactions of the Company for the first half of 2018</li> <li>3. Resolution on continuing connected transactions of the Company from 2019 to 2021</li> </ol>	
Fifth meeting in 2018	2018.10.24	<ol style="list-style-type: none"> <li>1. Proposal for application of new accounting standards on refinement of impairment of certain financial instruments of the Company</li> <li>2. The third quarterly report of the Company in 2018</li> </ol>	

## CORPORATE GOVERNANCE (CONTINUED)

As at the date hereof, the Audit Committee under the eighth session of the Board of the Company has reviewed the financial report of the Company in 2018 prepared in accordance with the PRC Accounting Standards for Business Enterprises and the internal control evaluation report of the Company in 2018 in accordance with the requirements of the Stock Exchange and the Shanghai Stock Exchange.

### **(IV) Strategy and Investment Committee**

As at the date of this Annual Report, the Strategy and Investment Committee of the eighth session of the Board of the Company consists of Mr. Wu Yong (executive Director), Mr. Xie Donggang (non-executive Director) and Ms. Yang Minli (independent non-executive Director).

Duties and operation of the Strategy and Investment Committee are set out as follows:

- (1) to study and make recommendations on the medium and long-term strategic development plans of the Company;
- (2) to study and make recommendations on significant investments, financing proposals and material capital operations which are subject to the approval of the Board as required under the “Articles of Association” of the Company and relevant regulations of the Company;
- (3) to study and make recommendations on significant events which may affect the development of the Company;
- (4) to inspect implementation of the above matters; and
- (5) other matters as authorized by the Board.

During the Reporting Period, the Strategy and Investment Committee of the seventh session of the Board of the Company convened a meeting on 28 August 2018 to consider and approve the resolution on capital increase to Luoyang Xiyuan vehicle and Power Inspection Institute Co., Ltd. by Luoyang Tractor Research Institute Co., Ltd.; and the Strategy and Investment Committee of the eighth session of the Board of the Company convened a meeting on 12 December 2018 to consider the transfer of equity interest and debt interest in Changtuo Company, capital increase to YTO France by the Company and other matters.

## CORPORATE GOVERNANCE (CONTINUED)

**V. REPORT OF THE BOARD OF SUPERVISORS**

During the Reporting Period, the Board of Supervisors of the Company performed its duties diligently and responsibly according to the “Company Law”, the “Articles of Association” of the Company and the “Procedural Rules for Meetings of the Board of Supervisors” and the requirements of other laws, regulations and rules, and actively exerted its supervisory role on the production and operation, financial position and the performance of directors and senior management of the Company to promote the improvement of corporate governance, thereby safeguarding the interests of the Company, its shareholders and other stakeholders.

**I. Meetings of the Board of Supervisors**

During the Reporting Period, the Board of Supervisors of the Company convened five meetings, details of which are as follows:

Session of meeting	Date	Inquiry index	Resolutions	Disclosure date
the eleventh meeting of the seventh session of the Board of Supervisors	29 March 2018	websites of the Shanghai Stock Exchange and the Stock Exchange	considered and approved resolutions including the 2017 annual report and annual report summary, 2017 annual result announcement, 2017 dividend distribution proposal, 2017 social responsibility report, 2017 internal control self-evaluation report, and special report on deposits and actual use of raised funds of the Company.	30 March 2018
the twelfth meeting of the seventh session of the Board of Supervisors	25 April 2018	/	considered and approved the 2018 first quarterly report of the Company.	N/A
the thirteenth meeting of the seventh session of the Board of Supervisors	29 August 2018	websites of the Shanghai Stock Exchange and the Stock Exchange	considered and approved the 2018 interim report and its summary and 2018 interim results preliminary announcement of the Company.	30 August 2018
the fourteenth meeting of the seventh session of the Board of Supervisors	26 October 2018	websites of the Shanghai Stock Exchange and the Stock Exchange	considered and approved the resolution on refinement of accounting policy and the 2018 third quarterly report of the Company.	27 October 2018
the first meeting of the eighth session of the Board of Supervisors	30 October 2018	websites of the Shanghai Stock Exchange and the Stock Exchange	considered and approved the resolution on election of chairman of the eighth session of the Board of Supervisors of the Company.	31 October 2018

## CORPORATE GOVERNANCE (CONTINUED)

### II. Work of the Board of Supervisors of the Company in 2018

#### (I) *Re-election of the Board of Supervisors*

The term of office of the seventh session of the Board of Supervisors expired on 28 October 2018. In accordance with the “Articles of Association” and the “Procedural Rules of the Board of Supervisors” of Company, after nomination by the seventh session of the Board of Supervisors of the Company, shareholders representative supervisors and staff representative supervisors were elected at the second extraordinary general meeting and staff representative meeting in 2018. The eighth session of the Board of Supervisors still consists of 6 supervisors (including 2 staff representative supervisors), and the number and composition of the eighth session of the Board of Supervisors are in compliance with the “Company Law” and the “Articles of Association” of the Company.

#### (II) *Supervision on the affairs of the Company*

##### 1. *Supervision on the operation of the Company in accordance with the law*

During the Reporting Period, the Board of Supervisors presented all on-site Board meetings and general meetings, and reviewed all matters on which the Board voted by virtual means, supervised the convening process, decisions of general meetings and Board meetings and the implementation of resolutions of the general meeting by the Board, and timely reminded the possible risk of the Board and senior management of the Company. The Board of Supervisors believed that the revision and improvement of corporate governance system by the Company could ensure more regulatory and efficient corporate governance of the Company, and the major operational procedure of decision-making of the Company was in compliance with relevant laws and regulations during the Reporting Period. The Directors, senior management of the Company performed their duties and exercised their functions in due diligence. No violation of laws, regulation, the “Articles of Association” or damage to the interests of the Company and investors was found.

##### 2. *Review of the financial position of the Company*

During the Reporting Period, the Board of Supervisors maintained communication with the management, reviewed the meeting material of the Board of Supervisors and financial report and reviewed audit report issued by the accounting firms to carefully perform the supervision and checking on the financial position and finance management work of the Company. The Board of Supervisors was of the view that the accounting and financial management system of the Company were effectively implemented. There was no material omission of information and false statements in the Company’s 2018 Annual Report. It truly and accurately reflected the financial position and operating results of the Company.

## CORPORATE GOVERNANCE (CONTINUED)

### 3. *Opinions on evaluation on internal control of the Company*

The Board of Supervisors supervised the Company's internal control implementation through listening to the work report and checking the working papers, etc., and was of the view that internal control system of the Company was implemented in an effective way and internal audit department was well equipped with personnel and other resources, thus ensuring a full and effective implementation and supervision on fundamental activities of internal control. The evaluation report on internal control of 2018 issued by the Company gave a true and objective picture of the establishment and implementation of the internal control system of the Company, on which it had no disagreement.

### 4. *Supervision over the investor relations of the Company during the Reporting Period*

During the Reporting Period, the Company performed its obligation of information disclosure in strict accordance with regulatory requirements, and disclosed information in a timely, fair, truthful, accurate and complete manner. Through communication with investors by means of investor briefings, general meetings, etc., the Company allowed investors to understand the its operations and management. The Board of Supervisors was of the view that the Company's 2018 annual investor relations was in line with the requirements of the "Management System for Investor Relations".

### 5. *Audit on the periodic report of the Company*

During the Reporting Period, the Board of Supervisors considered and approved the four periodic reports of the Company in a serious manner, concluded that the preparation and deliberation procedure of periodic report were in compliance with the requirements of the laws, regulations and "Articles of Association" of the Company, the content and form of which conformed to the requirements of the CSRC, the Shanghai Stock Exchange, and the Hong Kong Stock Exchange, the information contained therein gave a true and fair view of the financial position of the Company in all respect, and no breach of confidentiality requirements by the persons involved in the preparation and consideration and approval of periodic report was found. The annual financial position of the Company in 2018 has been audited by Da Hua Certified Public Accountants, which issued an unqualified standard audit report. The 2018 Annual Report truly reflected the financial position and operating results of the Company.

In 2019, the Board of Supervisors of the Company will continue to perform its duties in accordance with the requirements of the "Company Law" and the "Articles of Association" of the Company. While independently performing duties according to the laws, the Board of Supervisors of the Company will further strengthen the supervision over the finance, internal control and act of conduct of directors and senior management of the Company, so as to effectively safeguard the legitimate interests of the Company and its shareholders and facilitate the sustainable and healthy development of the Company.

## CORPORATE GOVERNANCE (CONTINUED)

### **VI. APPRAISAL MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD AND ESTABLISHMENT AND IMPLEMENTATION OF INCENTIVE MECHANISM**

The “Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company” approved by the Board separates the appraisal of the senior management of the Company into two parts: annual remuneration and medium to long term incentives. During the Reporting Period, the Remuneration Committee under the Board determined the results of the annual remuneration and the medium to long term incentives of the senior management according to the above measures and based on the Company’s budget, KPI indicators, major works and completion results of the operating indicators of division of labours in units.

### **VII. WHETHER THERE IS DISCLOSURE OF INTERNAL CONTROL SELF – ASSESSMENT REPORT**

For details, please refer to the “2018 Annual Internal Control Evaluation Report of First Tractor Company Limited” issued by the Company on the website of the Shanghai Stock Exchange and in the overseas regulatory announcement issued by the Company on the website of the Stock Exchange on 29 March 2019.

### **VIII. EXPLANATION ON INTERNAL CONTROL AUDIT REPORT RELATED MATTERS**

For details, please refer to the “2018 Annual Internal Control Audit Report of First Tractor Company Limited” issued by the Company on the website of the Shanghai Stock Exchange and in the overseas regulatory announcement issued by the Company on the website of the Stock Exchange on 29 March 2019.

### **IX. CORPORATE GOVERNANCE REPORT**

During the Reporting Period, the Company strictly abided by the principles and most code provisions under the “Corporate Governance Code” and “Corporate Governance Report” (the “Code”) as set out in Appendix 14 to the Listing Rules of the Stock Exchange. The Company deviated from Code provision A.6.7 which requires that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Due to other business engagement, Mr. Wu Tak Lung and Mr. Xing Min, then independent non-executive Directors and Ms. Yang Minli, a current independent non-executive Director and Mr. Li Hepeng, Mr. Xie Donggang and Mr. Li Kai, current non-executive Directors, did not attend the 2017 annual general meeting of the Company, A Shareholders’ Class Meeting and H Shareholders’ Class meeting all held on 29 May 2018; Mr. Xing Min and Mr. Wu Tak Lung, then independent non-executive Directors, Mr. Yu Zengbiao, a current independent non-executive Director, and Mr. Li Hepeng, a current non-executive Director, did not attend the special general meeting of the Company held on 28 August 2018; and Mr. Xing Min and Mr. Wu Tak Lung, then independent non-executive Directors, and Mr. Yu Zengbiao, a current independent non-executive Director, did not attend the special general meeting of the Company held on 29 October 2018. Other non-executive Directors and independent non-executive Directors had been present at the respective general meetings, A Shareholders’ Class Meeting, H Shareholders’ Class Meeting, and the Company has informed all Directors of the minutes of the general meeting, to enable the Board to develop a balanced understanding of the basic information of the general meetings of the Company.

## CORPORATE GOVERNANCE (CONTINUED)

### (I) Shareholders' right

1. According to Article 76 of the "Articles of Association" of the Company, when shareholder(s) solely or jointly holding 10 percent or more of the Company's voting shares require(s) to convene an extraordinary general meeting in writing, the Board of the Company shall convene an extraordinary general meeting within two months.
2. According to Article 80 of the "Articles of Association" of the Company, shareholders individually or jointly holding more than 3% of the Company's shares may raise a provisional proposal and submit to the Board in writing 10 days prior to the date of the general meeting. The Board shall issue a supplemental notice of general meeting announcing the contents of the provisional proposals within 2 days upon receipt of the proposals.
3. If shareholders of the Company have enquiry about relevant information of the Company or request for information, they shall provide documentary evidence that they are holding certain type and numbers of shares of the Company to the Secretary to the Board or office of the Board. After verifying the identity of the shareholders by the Company, the Company will provide relevant information as stipulated in Article 60 of the "Articles of Association" of the Company. For details of contact information of the Company, please refer to annual reports, interim reports and relevant announcements of the Company.

In consideration of the above, the Company was in strict compliance with all the Code provisions and the "Articles of Association" of the Company in relation to shareholders' rights during the Reporting Period.

### (II) Securities transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules of the Stock Exchange as its own code of conduct regarding securities transactions by the Directors. After making enquiries to, and as confirmed by all the Directors of the Company, Mr. Wu Tak Lung, a then independent non-executive Director of the Company, held 10,000 H Shares of the Company. During the Reporting Period, all the Directors of the Company had strictly complied with the code of conduct in relation to the securities transactions by the Directors under the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules of the Stock Exchange.

### (III) Directors and the Board of Directors

#### 1. *Directors*

During the Reporting Period, the Company re-elected members of the Board. On 29 October 2018, members of the eighth session of the Board were elected in the Company's second extraordinary general meeting in 2018. The eighth session of the Board consists of eleven Directors, being Mr. Zhao Yanshui (Chairman), Mr. Wu Yong (vice chairman) and Mr. Zhu Weijiang (general manager) as executive Directors; Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Zhou Honghai as non-executive Directors; and Mr. Yu Zengbiao, Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit as independent non-executive Directors.

## CORPORATE GOVERNANCE (CONTINUED)

The biographical details of Directors are set out in Section VIII headed “Directors, Supervisors, Senior Management and Employees” in this Annual Report. The Company has received the annual confirmation letter issued by each of the four independent non-executive Directors, namely Mr. Yu Zengbiao, Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit, in respect of their respective independence, as well as the confirmation letter issued by Mr. Xing Min and Mr. Wu Tak Lung, respectively, in respect of their respective independence during their term of office, in accordance with Rule 3.13 of the Listing Rules of the Stock Exchange. The Company considers that all the independent non-executive Directors are qualified independent persons and comply with the requirements on independence as set out in Rule 3.13 of the Listing Rules of the Stock Exchange.

One-third of the members of the Board are independent non-executive Directors. The members of the Board have different professional backgrounds and possess expertise and years of management experience in terms of corporate management, machinery design and manufacturing, and financial management, etc. The diversified professional backgrounds of Directors can ensure the decisions made by the Board to be more scientific and efficient.

During the Reporting Period, other than their working relationships with the Company, none of the Directors, Supervisors or senior management of the Company had any financial, business or family relationship or any other material/connected relationship with each other.

During the Reporting Period, by preparing the information disclosure announcement, and sending the operation information of the Company to all of its Directors, Supervisors and senior management in a timely manner, the Company provided them with its latest operation updates and public information. The Directors, Supervisors, senior management of the Company have been organized to attend the training on improving the performance ability of Director, Supervisor, senior management of the Company organized by the CSRC and the Shanghai Stock Exchange, to further improve the compliance awareness in performance of Directors, Supervisors, senior management of the Company.

### **2. Board of Directors**

The Board is responsible for formulating and reviewing the Company's development strategies and operating strategies, preparing annual budgets and final accounting schemes and annual business plans, proposing dividend plans, monitoring the management and holding regular meetings to discuss material matters affecting the Company's operations pursuant to the relevant laws and regulations, rules and the “Articles of Association” of the Company. The “Articles of Association” and the “Procedural Rules for the Board” of the Company as considered and approved at the general meeting has stipulated the terms of reference of the Board.

The Board diversity policy formulated by the Company aims to cause the Company to take into account the composition of the Board members from various aspects when electing and appointing them, including but not limited to gender, age, race, cultural and educational background, professional experiences, knowledge and expertise, thereby avoiding a collective mindset of the Board from simplex composition and allowing Board members to consider issues from different perspectives so as to enable the Board to be more deliberate and prudent in making important decisions.

## CORPORATE GOVERNANCE (CONTINUED)

The eighth session of the Board has diversified feature, its members' age range is between 46 and 65, including two females, with backgrounds of accounting experts, industry experts in agriculture machinery and experienced persons in the fields of finance and investment and manufacturing industry. Their knowledge structure and expertise are professional and mutually complementary to the overall structure of the Board, which helped members of the Board to consider issues from different perspectives so as to enable the Board to be more deliberate and prudent in making any important decisions. A diversified Board provides guarantee and support for the scientific decision-making of the Board.

During the Reporting Period, the Company revised the "Articles of Association" and the "Procedural Rules of the Board of Directors" by adding the contents relating to the Party construction.

During the Reporting Period, the Board convened ten meetings (including Board meetings held by way of telecommunication), including four regular meetings. Attendance of Directors in Board meetings are set out in this section "Performance of Duties by Directors."

### **(IV) The Chairman and the management**

During the Reporting Period, Mr. Zhao Yanshui was the Chairman of the Company, and Mr. Zhu Weijiang was the General Manager of the Company, thus the positions of the Chairman and the General Manager are held by different persons, complying with the Code provisions of A.2.1. On 3 March 2019, Mr. Zhao Yanshui resigned as the Chairman, an executive Director and the positions held at the special committees of the Board due to job allocation; and Mr. Zhu Weijiang resigned as an executive Director, a member of the Strategy and Investment Committee and the General Manager of the Company due to job allocation. The vacancy of Directors will not affect the normal operation of the Board, nor will it affect the normal production and operation of the Company. The Company has started the recruitment of Directors and will hold a general meeting to elect new Directors on 25 April 2019.

The management of the Company includes the General Manager and Deputy General Manager, who are responsible for the Company's daily business operation, business planning and implementation, and accountable for the operation of the Company to the Board. The management of the Company shall keep in touch with all Directors to ensure that the Directors are kept updated of information about the Company's business activities. The "Articles of Association" and "Working Rule of the General Manager" of the Company were approved at the general meeting which specifically define the duties and authority of the management.

### **(V) Non-executive Directors (Including Independent Non-executive Directors)**

The terms of office of the non-executive Directors, Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Zhou Honghai, and the independent non-executive Directors, Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit, will expire on 28 October 2021, and the term of office of Mr. Yu Zengbiao will expire on 28 May 2020.

## CORPORATE GOVERNANCE (CONTINUED)

All the above eight non-executive/independent non-executive Directors possess proper experience and professional qualifications required to perform the duties of Directors. In particular, Mr. Yu Zengbiao, an independent non-executive Director, is a senior expert in finance and accounting, Ms. Yang Minli, an independent non-executive Director, is a senior expert in agricultural machinery industry, Ms. Wang Yuru, an independent non-executive Director, is an expert in economic history and corporate development research, and Mr. Edmund Sit, an independent non-executive Director, has extensive experience in finance and investment.

### **(VI) Special committees under the Board**

Details of the Remuneration Committee, Nomination Committee, Audit Committee and Strategy and Investment Committee are set out in this section “Details for disclosure of material opinions and suggestion and objection raised in performance of duties in special committees under the Board during the Reporting Period”.

### **(VII) Auditors’ remuneration**

During the Reporting Period, the auditor provided internal control audit services to the Company and issued an audit opinion on the internal control of the Company. The Company signed an appointment agreement with the auditor with respect to such non-audit services, which set out the scope of the audit contents and remuneration of the auditor.

For details, please refer to “Appointment or Dismissal of Auditor” under Section IV Significant Events of this Annual Report.

### **(VIII) Risk Management and Internal Control**

During the Reporting Period, the Company has established proper risk management and internal control system. The risk management and internal control system is established and gradually improved with the orientation to possible risks exposed by the Company in various key business and management activities. The Board is responsible for the development of risk management and internal control system and the review of their effectiveness. The audit department of the Company is responsible for reviewing the effectiveness of internal control.

The Audit Committee under the Board of the Company shall hear the report from the audit department on annual conclusion and plans of the internal audit in due course every year and review the adequacy and effectiveness of the internal control and risk management of the Company.

## CORPORATE GOVERNANCE (CONTINUED)

Each year, the Board of the Company shall review the risk management and internal control monitoring system, and issue the Annual Internal Control Assessment Report to investors. During the Reporting Period, the Board of the Company conducted annual review on the risk management and internal control system and its effectiveness and considered that the Company had constructed a systematic internal control monitoring system and all the internal control system was in compliance with the PRC laws, rules and requirements. The internal control monitoring system covers all parts of operation, business and internal management of the Company, defining risk management methods and establishing three layers of risk management, which effectively guaranteed the safety and completeness of the assets and formation of true and fair financial statements. During the year, the overall internal control and operation of the Company was good and there was effective internal control in all material aspects in maintaining an effective financial report. Despite the above, the Board of the Company has to indicate that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. For details, please refer to the “2018 Annual Internal Control Evaluation Report of First Tractor Company Limited” issued by the Company on the website of the Shanghai Stock Exchange and in the overseas regulatory announcement on the website of the Stock Exchange on 29 March 2019.

With respect to the management of inside information, the Company has formulated the “Management System for Inside Information and Insiders” which sets out the procedures and internal controls for handling and dissemination of inside information and includes the definition of inside information and insider, the right to access to inside information, the duty of confidentiality of insider, the relevant accountability and handling regulations as well as the remedy for leakage of inside information and the duty to disclose information thereafter.

During the Reporting Period, before the preparation of the 2017 Annual Report, the 2018 First Quarterly Report, the 2018 Interim Report and the 2018 Third Quarterly Report of the Company, the Company has notified all the Directors, Supervisors and Senior Management of the Company not to deal in any securities of the Company as provided by the relevant regulations in the Listing Rules of the Stock Exchange.

### **(IX) Investor Relations**

During the Reporting Period, the Company focused on information disclosure and well-prepared investor relations works. The Company continued to disclose the Company’s announcements on the website of the Stock Exchange and the designated media as required, and timely published announcements on investor relation special column of the Company’s website. On that basis, the Company further strengthened the exchange and communication with investors, passing information to investors through various channels such as the Shanghai Stock Exchange’s interactive E-platform, on-site general meeting, etc.; facilitated voting of minority and medium shareholders by providing network voting for the general meeting; properly arranged for the PRC or overseas investors’ visit requirements, and received visit of many batches of fund managers and analysts of investment institutions by means of teleconference and on-site meeting throughout the year. Through communication with investors and listening to their advices, the effectiveness of information disclosure of the Company has been further improved.

## CORPORATE GOVERNANCE (CONTINUED)

### **(X) Internal key contact person of the Company**

For details, please refer to Section II headed “Company Profile and Key Financial Indicators” of this Annual Report.

### **(XI) Amendment of Articles of Association**

For details, please refer to “Explanation on Corporate Governance Related Situation” under this section.

### **(XII) Description of changes in the period from the end of the Reporting Period to the date of this Annual Report**

For details, please refer to Section VIII – V. Changes in Directors, Supervisors and Senior Management from the End of the Reporting Period to the Date of this Annual Report.

# SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY

## I. BASIC INFORMATION

China YTO Group Finance Company Limited is a non-banking financial institution established as approved by the People's Bank of China in August 1992 and commenced business operation on 28 December 1992. It is the first finance company of enterprise group in Henan province. As at the end of the Reporting Period, the Company directly held 94.6% of equity interest in YTO Finance. YTO Finance principally engages in business including handling of internal transfer settlement between member companies; assisting member companies in receipt and payment of transaction amount; collecting the deposit of member companies; providing loans, finance lease, bill acceptance and discounting, entrusting loans and investments to member companies, and equity investment and portfolio investment in financial institutions as approved; and consumer credit service, buyer's credit and finance lease for products of member companies and inter-bank borrowing and lending.

YTO Finance has always adhered to the operating philosophy of "based on the Group, serving principal businesses, operating steadily, innovating development", fully leveraged the financial service function, and aggregated idle funds from the member units to form a "fund pool" with an aim to adjust the fund surplus and deficit and optimize resource allocation between the units, so as to reduce capital costs and improve capital usage efficiency. It vigorously expanded business innovation to support the Company's product sales, and assisted the Company in carrying out financing business, achieving good operating results.

## II. INFORMATION ABOUT BUSINESS OPERATION OF YTO FINANCE

### (I) Information about business operation

During the Reporting Period, due to the fall in the price of funds in the interbank market, YTO Finance actively scaled down its business to ensure the maximum benefit of the Group. As at the end of the Reporting Period, YTO Finance had total assets of RMB4,290.9787 million, representing a decrease of RMB1,041.1985 million or 19.53% from the beginning of the year; its total liabilities amounted to RMB3,480.6306 million, representing a decrease of RMB1,046.8221 million or 23.12% from the beginning of the year. In 2018, it realized total profit of RMB63.8980 million, representing a decrease of RMB39.9635 million from the previous year, mainly due to the impact of the provision for impairment for Guoyu Logistics of RMB37.4815 million. In the lawsuit filed by YTO Finance against Guoyu Logistics in November 2018, the enforcement procedure has been terminated because the defendant currently has no executable property, YTO Finance adjusted the asset into "loss" according to asset five-level classification.

As at the end of the Reporting Period, YTO Finance has a capital adequacy ratio of 20.16%, a liquidity ratio of 51.44%, no non-performing loan, a non-performing asset ratio of 1.78% and an investment proportion of 46.97%. The various regulatory indicators were in line with the regulatory requirements.

### (II) Explanations on connected transactions

During the Reporting Period, connected transactions conducted by YTO Finance complied with the terms of relevant agreements and the approved caps thereunder. In addition, the financial service agreements between 2019 and 2021 signed by YTO Finance and Sinomach Finance Co., Ltd and the caps of transactions thereunder were considered and approved at the Company's second extraordinary general meeting in 2018, which mainly included the Loan Service Agreement, the Bills Discounting Service Agreement, the Bills Acceptance Service Agreement and the Interbank Business Services Agreement.

## SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY (CONTINUED)

### III. RISK CONTROL

In order to enhance internal control, guard against financial risks, safeguard the healthy and stable operation of the company, YTO Finance has established, and is constantly improving, a risk management system which is adaptable to the development goals of the organization in accordance with the requirements of Guidelines on Internal Control of Commercial Banks, Administrative Measures for Comprehensive Risks and Internal Control of Group Members and other laws and regulations.

#### **(I) Establishing a corporate governance structure based on “the shareholders’ general meeting, board of directors, board of supervisors and senior management”**

The shareholder’ general meeting, board of directors, board of supervisors and the senior management of YTO Finance operated effectively in accordance with the relevant requirements of the Company Law and the articles of association of the company. In 2018, YTO Finance completed the revision of its articles of association by incorporating the Party construction into the articles of association according to the regulatory requirements and the Measures for the Administration of Equity Interest of Commercial Banks.

#### **(II) Continuing to improve risk management organization**

YTO Finance has four special committees under the board of directors (risk management committee, internal control committee, internal audit committee, information technology management committee), and each committee has established respective rules of procedure and decision-making procedures, and makes reports on work to the board of directors on a regular basis. In 2018, on the basis of risk examination and diagnosis, YTO Finance has completed the preparation of the Comprehensive Risk List of YTO Finance, so as to conduct key supervision over the business which has high risk impact and is more likely exposed for risks. The Solutions to Major Risks of YTO Finance has also been formulated, which specifies the risk management strategies, so as to facilitate the comprehensive risk management of YTO Finance.

#### **(III) Continuing to improve the internal control system**

In light of the changing industry environment and according to relevant requirements of internal control assessment and management, in 2018, YTO Finance modified and completed the Internal Control Evaluation Manual by supplementing and revising the relevant business system and process, and conducted a self-inspection and evaluation on the internal control system. YTO Finance believed that it had a good internal control environment, sound and complete the internal control regime, standard business process, strong information transmission and communication ability, and relatively reasonable and effective internal control system, and that it had good asset quality, high capital adequacy ratio and sufficient provision, and various business risks were under control.

# AUDIT REPORT

To the Board of Directors of First Tractor Company Limited:

## 1. OPINION

We have audited the financial statements of First Tractor Company Limited (hereafter referred to as “YTO Company”), which comprise the consolidated and the parent company’s balance sheets as at December 31, 2018, and the consolidated and the parent company’s income statements, the consolidated and the parent company’s cash flow statements, the consolidated and the parent company’s statements of changes in shareholder’s equity for the year then ended, and the notes to the relevant financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and the parent company’s financial position of YTO Company as at December 31, 2018, and of their consolidated and the parent company’s financial performance and cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises (“CASs”).

## 2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing (“CASs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We are independent of YTO Company in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants (“CICPA Code”), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

## AUDIT REPORT (CONTINUED)

### 3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follow:

- I. Revenue recognition.
- II. Provision for inventories impairment.

#### (1) Revenue recognition

##### **a. Key Audit Matter**

The main resources of sales revenue of YTO Company is the sales of various types of tractors and accessories to dealers domestic and overseas. As shown in Note IV 26 and Note VI 51, the sales revenue of main business was RMB5,462.53 million in 2018, accounting for 96.15% of the Group's total revenue. Since revenue is one of the key performance indicators of YTO Company, there is an inherent risk that the management manipulates revenue in order to achieve specific goals or expectations. Therefore, we will identify the income of YTO Company as a key audit item.

##### **b. How our audit addressed the Key Audit Matter**

We have implemented the following key audit procedures for the revenue recognition audit:

- I. Understood, evaluated, and tested the revenue procedure including customer approval, orders confirmation and income recorded, and the related internal control.
- II. Obtained the Company's sales policy to check the changes on the policies of credit, sales incentives and so on, as well as the effects of such exchanges.
- III. Checked the Company's sales confirmation based on orders, shipping documents, receipt, invoices and payments received, etc.
- IV. Analyzed the rationality and reasons of the Company's gross profit rate change.
- V. Taken Cut-off test of revenue recognition performance for the end of year 2018.
- VI. Taken balance confirmation procedure as parts of accounts receivable audit.

Based on our work, we found that the overall assessment of revenue recognition adopted by management was supported by the evidence we obtained.

## AUDIT REPORT (CONTINUED)

**3. KEY AUDIT MATTERS (CONTINUED)****(2) Provision for impairment of inventories****a. Key Audit matter**

YTO Company is mainly engaged in the production of agricultural machinery and power machinery. Its main products are tractors, diesel engines and key components. The value of inventory is recorded as the lower between cost and net realizable value. The net realizable value is the estimated price after deducting the cost that is expected to happen when completed, estimated sales expenses and related taxes. To determining the expected price, the management needs to make a major decision and consider the future trend of market price based on the historical price. Refer to Note IV 12 and Note VI 10, the ending balance of inventories is RMB1,644.58 million, the amount of provision for inventory is RMB214.23 million. Since this item involves with a significant amount is significant relies on the management's judgments, we determine it as a key audit item.

**b. How our audit addressed the Key Audit Matter**

We have implemented the following key audit procedures on provision for impairment of inventories:

- I. Inspected and tested the designation and implementation of internal control which related to inventory.
- II. Conducted supervision of inventory counting and inspecting the quantity and condition of the inventories.
- III. Obtained the inventory aging statement, analyzing the reasonableness of provision for obsolete inventory with long-age based on the status of inventory.
- IV. Obtained and reviewed the information on which the management evaluates the existence of impairment in inventory, evaluate appropriateness and rationality, and check relevant calculations.

Based on our work, we found that the judgment and estimates of the management of provision for the inventories impairment were supported by the evidence we obtained.

## AUDIT REPORT (CONTINUED)

### 4. OTHER INFORMATION

The management of YTO Company is responsible for the other information. The other information comprises all of the information included in the YTO Company 2018 annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

### 5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with CASs, and for such internal control as management determines is necessary to enable the financial statements are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, the Management is responsible for assessing YTO Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intend to liquidate YTO Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible to overseeing YTO Company's financial reporting process.

## AUDIT REPORT (CONTINUED)

### 6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CASs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design the appropriate audit procedures.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on YTO Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we shall modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause YTO Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and also whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient and appropriate audit evidence on the financial information of the entities or business activities of YTO Company in order to express an audit opinion on the financial statements. We are responsible for direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## AUDIT REPORT (CONTINUED)

### 6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DaHua Certified Public Accountants  
*(Special General Partnership)*

Chinese Certified Public Accountant: Yu Fanghong  
*(Engagement Partner)*

Chinese Certified Public Accountant: Lin Haiyan

Beijing, China

March 29, 2019

## CONSOLIDATED BALANCE SHEET

Dec 31st, 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

<b>Assets</b>	<i>Note VI</i>	<b>Dec 31st, 2018</b>	Jan 1st, 2018	Dec 31st, 2017
<b>Current assets</b>				
Monetary Funds	Note 1	<b>1,549,845,341.18</b>	3,292,984,287.50	3,292,984,287.50
Lendings to Banks and Other Financial Institutions	Note 2	<b>200,000,000.00</b>		
Financial assets measured at fair value with changes in value recognized in profit or loss	Note 3			40,478,838.50
Trading financial assets	Note 4	<b>897,235,968.16</b>	924,502,397.15	
Derivative financial assets	Note 5	<b>578,743.73</b>		
Notes receivable & Accounts receivable	Note 6	<b>929,490,438.84</b>	1,769,815,757.98	1,769,815,757.98
Advances to suppliers	Note 7	<b>107,561,199.88</b>	233,704,609.47	233,704,609.47
Other receivables	Note 8	<b>65,741,038.66</b>	137,573,564.98	137,573,564.98
Buying back the sale of financial assets	Note 9	<b>150,203,731.40</b>	80,207,776.70	80,207,776.70
Inventories	Note 10	<b>1,430,349,787.42</b>	1,167,681,087.61	1,167,681,087.61
Contractual assets				
Assets classified as held for sale				
Non-current assets due within one year	Note 11	<b>184,159,312.46</b>	37,481,505.81	
Other current assets	Note 12	<b>2,017,266,694.07</b>	1,694,694,921.00	1,694,694,921.00
<b>Total current assets</b>		<b>7,532,432,255.80</b>	9,338,645,908.20	8,417,140,843.74
<b>Non-current assets</b>				
Loans and advances to customers	Note 13	<b>1,011,378,462.91</b>	934,741,824.37	934,741,824.37
Financial assets available-for-sale	Note 14			188,129,341.41
Held-to-maturity investments	Note 15			58,344,519.48
Debt investment	Note 16		20,863,013.67	
Other debt investment				
Long-term receivables	Note 17	<b>280,985,073.83</b>		
Long-term equity investments	Note 18	<b>131,203,815.70</b>	141,468,273.42	141,468,273.42
Investment in other equity instruments				
Other non-current financial assets				
Investment properties				
Fixed assets	Note 19	<b>2,942,857,496.39</b>	3,030,222,384.21	3,030,222,384.21
Construction in progress	Note 20	<b>232,816,443.52</b>	290,749,376.91	290,749,376.91
Productive biological assets				
Oil and gas assets				
Intangible assets	Note 21	<b>842,336,991.00</b>	859,721,089.66	859,721,089.66
Research and development expenses	Note 22			
Goodwill	Note 23			
Long-term deferred expenses	Note 24	<b>41,237,156.30</b>	46,023,240.72	46,023,240.72
Deferred income tax assets	Note 25	<b>125,494,060.54</b>	136,232,633.76	136,232,633.76
Other non-current assets				
<b>Total non-current assets</b>		<b>5,608,309,500.19</b>	5,460,021,836.72	5,685,632,683.94
<b>Total assets</b>		<b>13,140,741,755.99</b>	14,798,667,744.92	14,102,773,527.68

## CONSOLIDATED BALANCE SHEET (CONTINUED)

Dec 31st, 2018 Monetary Unit: RMB

Liabilities and owners' shareholders' equity	Note VI	Dec 31st, 2018	Jan 1st, 2018	Dec 31st, 2017
<b>Current liabilities:</b>				
Short-term loans	Note 26	2,777,516,101.13	2,033,879,689.22	2,033,879,689.22
Absorption of deposits and interbank deposits	Note 27	1,080,524,854.03	780,195,528.74	780,195,528.74
Deposits from banks and other financial institutes	Note 28	0.00	300,000,000.00	300,000,000.00
Financial liabilities measured at fair value and its movement recorded through profit and loss				0.00
Trading financial liabilities				0.00
Derivative financial liabilities	Note 29	2,727,592.84	12,800,000.00	12,800,000.00
Notes payable & Accounts payable	Note 30	2,153,446,714.91	2,285,832,053.25	2,285,832,053.25
Advance from customers	Note 31			236,220,968.60
Contractual liability	Note 32	369,490,638.57	236,220,968.60	
Employee salary payable	Note 33	189,486,846.96	123,521,513.29	123,521,513.29
Taxes payables	Note 34	24,562,534.28	17,361,319.90	17,361,319.90
Other payables	Note 35	312,621,126.21	337,984,403.58	337,984,403.58
Liabilities classified as held for sale				0.00
Non-current liabilities due within one year	Note 36	76,664,479.21	1,522,040,174.73	1,522,040,174.73
Other current liabilities	Note 37	196,139,042.20	97,842,469.33	97,842,469.33
<b>Total current liabilities</b>		<b>7,183,179,930.34</b>	7,747,678,120.64	7,747,678,120.64
<b>Non-current liabilities</b>				
Long-term loans	Note 38	868,473,000.00	689,011,500.00	689,011,500.00
Bonds payable	Note 39			
Including: Preference shares Perpetual bond				
Long-term payables	Note 40	8,971,437.07		
Long-term employee salary payable	Note 41	119,715,885.28		
Estimated Liabilities	Note 42	3,981,625.85	13,699,471.42	13,699,471.42
Deferred income	Note 43	169,360,596.63	184,660,141.13	184,660,141.13
Deferred tax liabilities	Note 25	130,983,510.46	133,125,949.02	28,741,816.43
Other non-current liabilities				
<b>Total non-current liabilities</b>		<b>1,301,486,055.29</b>	1,020,497,061.57	916,112,928.98
<b>Total liabilities</b>		<b>8,484,665,985.63</b>	8,768,175,182.21	8,663,791,049.62

## CONSOLIDATED BALANCE SHEET (CONTINUED)

*Dec 31st, 2018 Monetary Unit: RMB*

<b>Liabilities and owners' shareholders' equity</b>	<i>Note VI</i>	<b>Dec 31st, 2018</b>	Jan 1st, 2018	Dec 31st, 2017
<b>Shareholder's equity</b>				
Share capital	Note 44	<b>985,850,000.00</b>	985,850,000.00	985,850,000.00
Other equity instruments Including: Preferred shares Perpetual bond				
Capital reserves	Note 45	<b>2,099,639,657.89</b>	2,099,632,613.11	2,099,632,613.11
Less: Treasury shares				
Other comprehensive income	Note 46	<b>-16,863,576.18</b>	-16,268,084.50	-16,268,084.50
Special reserves	Note 47	<b>3,274,006.51</b>	3,674,350.81	3,674,350.81
Surplus reserves	Note 48	<b>442,101,172.16</b>	442,101,172.16	438,442,350.67
General risk reserves	Note 49	<b>0.00</b>	12,754,318.98	12,754,318.98
Retained earnings	Note 50	<b>493,080,403.24</b>	1,780,434,858.18	1,273,219,846.84
<b>Total equity attributable to shareholders of the parent company</b>		<b><u>4,007,081,663.62</u></b>	<u>5,308,179,228.74</u>	<u>4,797,305,395.91</u>
<b>Minority interests</b>		<b><u>648,994,106.74</u></b>	<u>722,313,333.97</u>	<u>641,677,082.15</u>
<b>Total shareholder's equity</b>		<b><u>4,656,075,770.36</u></b>	<u>6,030,492,562.71</u>	<u>5,438,982,478.06</u>
<b>Total liabilities and shareholder's equity</b>		<b><u><u>13,140,741,755.99</u></u></b>	<u><u>14,798,667,744.92</u></u>	<u><u>14,102,773,527.68</u></u>

(The attached notes to the financial statements are part of the consolidated financial statements)

*Legal Representative:*  
**Wu Yong**

*Chief Financial Officer:*  
**Liu Jiguo**

*Accounting Manager:*  
**Zhou Juan**

# CONSOLIDATED INCOME STATEMENT

Year of 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

Item	Note VI	Amount in current year	Amount in last year
<b>1. Total operating revenue</b>		<b>5,681,547,536.68</b>	7,357,944,190.89
Including: Operating revenue	Note 51	<b>5,540,998,393.26</b>	7,219,310,386.11
Interest income	Note 52	<b>138,092,137.95</b>	137,931,789.75
Fees and commission income	Note 53	<b>2,457,005.47</b>	702,015.03
<b>2. Total cost of operation</b>		<b>7,098,644,257.15</b>	7,539,094,836.34
Including: Cost of operation	Note 51	<b>5,098,425,607.81</b>	6,036,004,631.87
Interest expenses	Note 52	<b>12,455,994.16</b>	15,819,471.26
Fees and commission expense	Note 53	<b>405,617.87</b>	301,278.51
Taxes and surcharges	Note 54	<b>46,008,058.50</b>	45,718,702.31
Selling expenses	Note 55	<b>461,866,175.50</b>	436,011,715.40
Administrative expenses	Note 56	<b>764,198,051.29</b>	503,321,348.16
R & D expenses	Note 57	<b>378,394,140.28</b>	386,339,439.17
Financial expenses	Note 58	<b>105,047,052.79</b>	73,123,501.81
Including: Interest expenses	Note 58	<b>157,621,838.19</b>	143,484,453.52
Interest income	Note 58	<b>36,285,541.94</b>	31,993,794.40
Loss on impairment of assets	Note 59	<b>172,393,654.35</b>	42,454,747.85
Credit loss	Note 60	<b>59,449,904.60</b>	
Add: Gain arising from the changes in fair value	Note 61	<b>36,623,032.72</b>	55,890,931.87
Investment income (Losses listed as "-")	Note 63	<b>19,158,702.59</b>	156,910,636.73
Including: income from investments in associates and joint ventures	Note 63	<b>-10,627,595.84</b>	-460,927.51
Net Open Hedging Income (Losses listed as "-")			
Change in fair value (Losses listed as "-")	Note 64	<b>10,081,083.66</b>	-25,447,931.82
Asset disposal income	Note 65	<b>196,944.39</b>	2,318,017.87
<b>3. Operating profit</b>		<b>-1,351,036,957.11</b>	8,521,009.20
Add: Non-operating income	Note 66	<b>41,079,900.33</b>	70,579,164.99
Less: Non-operating expenses	Note 67	<b>4,793,199.24</b>	23,043,819.45
<b>4. Total profit</b>		<b>-1,314,750,256.02</b>	56,056,354.74
Less: Income tax expenses	Note 68	<b>50,221,900.25</b>	18,345,015.80
<b>5. Net profit</b>		<b>-1,364,972,156.27</b>	37,711,338.94
Including: net profit achieved by the merger of the merged party before the merger under the same control			-1,099,244.09
(1) classification according to the continuity of operation			
Continuous operating net profit		<b>-1,364,972,156.27</b>	40,662,147.32
Termination of net profit			-2,950,808.38
(2) classification of ownership according to ownership			
Net profit attributable to shareholders of the parent company		<b>-1,300,108,773.92</b>	56,514,222.97
Minority interest		<b>-64,863,382.35</b>	-18,802,884.03

## CONSOLIDATED INCOME STATEMENT (CONTINUED)

Year of 2018 Monetary Unit: RMB

Item	Note VI	Amount in current year	Amount in last year
<b>6. Net other comprehensive income after tax</b>		<b>-509,964.75</b>	-13,936,840.55
Net other comprehensive income after tax attributable to owners of the parent company		<b>-595,491.68</b>	-13,582,334.26
(1) Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		<b>0.00</b>	0.00
1. Re-measurement of Benefit Plan Change			
2. Share of other comprehensive income of investee that will not be subsequently reclassified to profit and loss under equity method			
3. Changes in Fair Value of Investment in Other Equity Instruments			
4. Fair Value Change of Enterprise's Credit Risk			
5. Others			
(2) Other comprehensive income that will be subsequently reclassified to profit and loss		<b>-595,491.68</b>	-13,582,334.26
1. Share of other comprehensive income of investee that will be subsequently reclassified to profit and loss under equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets			-14,361,213.55
3. Gains and losses from held-to-maturity investment reclassified as financial assets available-for-sale			
4. Changes in Fair Value of Other Creditor's Rights Investment			
5. Amount of financial assets reclassified into other comprehensive returns			
6. Credit impairment reserve for other creditor's rights investment			
7. Effective part of hedging gains and losses from cash flows			
8. Cash Flow Hedging Reserve			
9. The Balance of Conversion of Foreign Currency Financial Statements		<b>-595,491.68</b>	778,879.29
10. Others			
Net other comprehensive income after tax attributable to minority interests		<b>85,526.93</b>	-354,506.29

## CONSOLIDATED INCOME STATEMENT (CONTINUED)

Year of 2018 Monetary Unit: RMB

Item	Note VI	Amount in current year	Amount in last year
<b>7. Total comprehensive income</b>		<b>-1,365,482,121.02</b>	<b>23,774,498.39</b>
Total comprehensive income attributable to shareholders of the parent company		-1,300,704,265.60	42,931,888.71
Total comprehensive income attributable to minority interests		-64,777,855.42	-19,157,390.32
<b>8. Earnings per share:</b>			
(1) Basic earnings per share		-1.3188	0.0572
(2) Diluted earnings per share		-1.3188	0.0572

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:  
**Wu Yong**

Chief Financial Officer:  
**Liu Jiguo**

Accounting Manager:  
**Zhou Juan**

# CONSOLIDATED CASH FLOW STATEMENT

Year of 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

Item	Note VI	Amount in current year	Amount in last year
<b>1. Cash Flow from Operating Activities:</b>			
Cash from sale and render service		<b>6,314,794,168.06</b>	7,077,067,312.62
Net increase of customer's deposit and deposit taking of interbank		<b>300,329,325.29</b>	191,908,688.65
Net increase borrowings from central bank			
Net increase borrowing funds to other financing institution		<b>-500,000,000.00</b>	50,000,000.00
Cash from original insurance contract premium			
Net cash from reinsurance business			
Net increase of insured deposit and investment			
Net increase of financial assets disposal measured as fair value and the variation included in current profit and loss			
Interest, handling charges and commissions received		<b>140,241,246.64</b>	149,868,895.44
Net increase in funds deposit			
Net increase of repurchasing business funds		<b>-69,995,954.70</b>	274,573,249.44
Refund of tax and levies		<b>365,394,220.38</b>	35,635,006.64
Cash relating to other business activities	Note 69	<b>159,172,056.33</b>	332,549,938.91
Sub-total of cash inflows from operating activities		<b>6,709,935,062.00</b>	8,111,603,091.70
Cash payments for goods purchased and services received		<b>5,461,464,185.24</b>	6,280,170,107.48
Net increase in loans and payments on behalf		<b>102,865,612.33</b>	196,692,292.33
Net increase in deposits with centre bank and interbank		<b>-52,457,657.57</b>	238,269,834.48
Payments of claims for original insurance contracts			0.00
Interests, handling charges and commissions paid		<b>38,973,352.56</b>	14,459,835.56
Commissions on insurance policies paid			0.00
Cash payments to and on behalf of employees		<b>1,174,361,650.89</b>	1,208,209,391.29
Payments of all types of taxes		<b>104,192,313.91</b>	179,031,300.61
Other cash payments relating to operating activities	Note 69	<b>264,933,352.49</b>	551,084,261.84
Sub-total of cash outflows from operating activities		<b>7,094,332,809.85</b>	8,667,917,023.59
<b>Net cash flows from operating activities</b>		<b>-384,397,747.85</b>	-556,313,931.89

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year of 2018 Monetary Unit: RMB

Item	Note VI	Amount in current year	Amount in last year
<b>2. Cash flows from investing activities:</b>			
Cash received from disposals and withdraw on investment		553,693,976.04	175,740,149.57
Cash received from returns on investments		64,593,154.26	87,377,433.26
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		3,875,459.72	3,249,182.64
Net cash received from disposals of subsidiaries and other business units			30,745,880.59
Other cash received relating to investing activities	Note 69		18,900,000.00
Sub-total of cash inflows from investing activities		<b>622,162,590.02</b>	316,012,646.06
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		268,432,138.66	293,152,467.59
Cash payments to acquire investments		900,000,000.00	326,000,000.00
Net cash payments for acquisitions of subsidiaries and other business units			5,283,896.52
Other cash payments relating to investing activities			0.00
Sub-total of cash outflows from investing activities		<b>1,168,432,138.66</b>	624,436,364.11
<b>Net cash flows from investing activities</b>		<b>-546,269,548.64</b>	-308,423,718.05
<b>3. Cash flows from financing activities:</b>			
Cash received from investors in making investment in the enterprise			0.00
Including: cash received from issuing shares of minority shareholders			0.00
Cash received from borrowings		3,015,356,298.00	2,932,328,850.00
Other cash received relating to financing activities			0.00
Sub-total of cash outflows from financing activities		<b>3,015,356,298.00</b>	2,932,328,850.00
Cash repayments of amounts borrowed		3,557,392,918.56	1,783,854,993.05
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		192,805,455.28	211,562,835.86
Including: subsidiary companies pay cash to minority shareholders for interest expenses and distribution of dividends or profit		189,000.00	13,378,274.47
Other cash payments relating to financing activities	Note 69		17,925,712.05
Sub-total of cash outflows from financing activities		<b>3,750,198,373.84</b>	2,013,343,540.96
<b>Net cash flows from financing activities</b>		<b>-734,842,075.84</b>	918,985,309.04

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*Year of 2018 Monetary Unit: RMB*

Item	<i>Note VI</i>	<b>Amount in current year</b>	Amount in last year
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>-1,637,625.28</b>	-1,818,638.73
<b>5. Net increase in cash and cash equivalents</b>		<b>-1,667,146,997.61</b>	52,429,020.37
Plus: Cash and cash equivalents at beginning of period		<b>2,946,734,827.85</b>	2,894,305,807.48
<b>6. Cash and cash equivalents at end of period</b>		<b>1,279,587,830.24</b>	2,946,734,827.85

(The attached notes to the financial statements are part of the consolidated financial statements)

*Legal Representative:*

**Wu Yong**

*Chief Financial Officer:*

**Liu Jiguo**

*Accounting Manager:*

**Zhou Juan**

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year of 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

Item	Note 17	Amount in this year										
		The owner's equity attributable to parent company										
		Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Minority equity	Total owners' equity
<b>I. Closing balance of prior year</b>		985,850,000.00	-	2,099,632,613.11	-	-16,268,084.50	3,674,350.81	438,442,350.67	12,754,318.98	1,273,219,846.84	641,677,082.15	5,438,982,478.06
Add: accounting policy changes								3,658,821.49		507,215,011.34	80,636,251.82	591,510,084.65
Prior errors' correction												-
Enterprise merger under the same control												-
Others												-
<b>II. Balance at the beginning of current year</b>		985,850,000.00	-	2,099,632,613.11	-	-16,268,084.50	3,674,350.81	442,101,172.16	12,754,318.98	1,780,434,858.18	722,313,333.97	6,030,492,562.71
<b>III. Increases/decreases in current year</b>		-	-	7,044.78	-	-595,491.68	-400,344.30	-	-12,754,318.98	-1,287,354,454.94	-73,319,227.23	-1,374,416,792.35
(I) Total comprehensive income						-595,491.68				-1,300,108,773.92	-64,777,865.42	-1,365,482,121.02
(II) Capital contributed by owners and capital decreases		-	-	7,044.78	-	-	-	-	-	-	-7,044.78	-
1. Capital contributed by owner												-
2. Holders of other equity instruments invested capital												-
3. The amount of the shares paid into the shareholders' rights and interests												-
4. Others				7,044.78	-						-7,044.78	-
(III) Profit distribution		-	-	-	-	-	-	-	-12,754,318.98	12,754,318.98	-8,462,232.00	-8,462,232.00
1. Appropriation of surplus reserve												-
2. Extraction of general risk reserves									-12,754,318.98	12,754,318.98		-
3. Profit distributed to owners (or stockholders)											-8,462,232.00	-8,462,232.00
4. Others												-
(IV) Transfers within the owners' equity		-	-	-	-	-	-	-	-	-	-	-
1. Capital (or stock) transferred from capital surplus		-										-
2. Capital (or stock) transferred from surplus reserve		-										-
3. Recovery of losses by surplus reserve												-
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans												-
5. Others												-
(V) Special reserves		-	-	-	-	-	-400,344.30	-	-	-	-72,085.03	-472,439.33
1. Extraction of special reserves							11,856,142.62				623,408.68	12,481,551.30
2. Use of special reserves							-12,256,486.92				-695,503.71	-12,953,990.63
(VI) Others												-
<b>IV. Balance at the end of current year</b>		985,850,000.00	-	2,099,639,657.89	-	-16,863,576.18	3,274,006.51	442,101,172.16	-	493,080,403.24	648,994,106.74	4,656,075,770.36

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Year of 2018 Monetary Unit: RMB

Item	Amount in last year										Total owners' equity
	The owner's equity attributable to parent company										
	Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Minority equity	
<b>I. Closing balance of prior year</b>	995,900,000.00		2,126,665,588.57	19,140,912.00	-2,685,750.24	4,485,866.00	423,908,219.34	10,774,059.81	1,289,413,464.37	674,297,753.32	5,503,638,289.17
Add: accounting policy changes											-
Prior errors' correction											-
Enterprise merger under the same control											-
Others											-
<b>II. Balance at the beginning of current year</b>	995,900,000.00	-	2,126,665,588.57	19,140,912.00	-2,685,750.24	4,485,866.00	423,908,219.34	10,774,059.81	1,289,413,464.37	674,297,753.32	5,503,638,289.17
<b>III. Increases/decreases in current year</b>	-10,050,000.00	-	-27,052,975.46	-19,140,912.00	-13,582,334.26	-811,515.19	14,534,131.33	1,980,259.17	-16,193,617.53	-32,620,671.17	-64,655,811.11
(I) Total comprehensive income					-13,582,334.26				56,514,222.97	-19,157,390.32	23,774,498.39
(II) Capital contributed by owners and capital decreases	-10,050,000.00	-	-27,052,975.46	-19,140,912.00	-	-	-				-17,982,063.46
1. Capital contributed by owner	-10,050,000.00										-10,050,000.00
2. Holders of other equity instruments invested capital											-
3. The amount of the shares paid into the shareholders' rights and interests											-
4. Others			-27,052,975.46	-19,140,912.00							-7,912,063.46
(III) Profit distribution	-	-	-	-	-	-	14,534,131.33	1,980,259.17	-72,707,840.50	-13,378,330.30	-69,571,780.30
1. Appropriation of surplus reserve							14,534,131.33		-14,534,131.33		-
2. Extraction of general risk reserves								1,980,259.17	-1,980,259.17		-
3. Profit distributed to owners (or stockholders)									-56,193,450.00	-13,378,330.30	-69,571,780.30
4. Others											-
(IV) Transfers within the owners' equity	-	-	-	-	-	-	-	-	-	-	-
1. Capital (or stock) transferred from capital surplus	-										-
2. Capital (or stock) transferred from surplus reserve	-										-
3. Recovery of losses by surplus reserve											-
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans											-
5. Others											-
(V) Special reserves	-	-	-	-	-	-811,515.19	-	-	-	-84,950.55	-86,465.74
1. Extraction of special reserves						12,666,520.66				888,082.52	13,554,603.18
2. Use of special reserves						-13,478,035.85				-973,033.07	-14,451,068.92
(VI) Others											-
<b>IV. Balance at the end of current year</b>	985,850,000.00	-	2,099,632,613.11	-	-16,268,084.50	3,674,350.81	438,442,350.67	12,754,318.98	1,273,219,846.84	641,677,082.15	5,438,982,478.06

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:  
**Wu Yong**

Chief Financial Officer:  
**Liu Jiguo**

Accounting Manager:  
**Zhou Juan**

## BALANCE SHEET OF THE PARENT COMPANY

Dec 31st, 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

<b>Assets</b>	<i>Note VI</i>	<b>Dec 31st, 2018</b>	Jan 1st, 2018	Dec 31st, 2017
<b>Current assets</b>				
Monetary Funds		<b>1,622,239,658.46</b>	2,674,257,804.79	2,674,257,804.79
Financial assets measured at fair value with changes in value recognized in profit or loss				
Trading financial assets		<b>172,077,116.52</b>	153,044,958.65	
Derivative financial assets				
Notes receivable & Accounts receivable	Note 1	<b>980,114,806.02</b>	1,442,677,748.61	1,442,677,748.61
Advances to suppliers		<b>74,828,658.18</b>	339,783,445.58	339,783,445.58
Other receivables	Note 2	<b>87,936,879.35</b>	163,423,305.75	163,423,305.75
Inventories		<b>504,408,343.29</b>	505,348,099.92	505,348,099.92
Contractual assets				
Assets classified as held for sale				
Non-current assets due within one year				
Other current assets		<b>1,970,719,420.50</b>	1,526,967,161.19	1,526,967,161.19
<b>Total current assets</b>		<b>5,412,324,882.32</b>	6,805,502,524.49	6,652,457,565.84
<b>Non-current assets</b>				
Financial assets available-for-sale				110,000,000.00
Held-to-maturity investments				
Debt investment				
Other debt investment				
Long-term receivables				
Long-term equity investments	Note 3	<b>2,866,295,996.80</b>	2,980,116,241.67	2,980,116,241.67
Investment in other equity instruments				
Other non-current financial assets				
Investment properties				
Fixed assets		<b>1,624,010,518.82</b>	1,656,170,735.96	1,656,170,735.96
Construction in progress		<b>143,966,878.57</b>	192,776,115.52	192,776,115.52
Productive biological assets				
Oil and gas assets				
Intangible assets		<b>534,497,286.56</b>	541,384,568.49	541,384,568.49
Research and development expenses				
Goodwill				
Long-term deferred expenses		<b>32,262,821.15</b>	40,574,570.02	40,574,570.02
Deferred income tax assets		<b>60,329,817.60</b>	22,469,834.47	22,469,834.47
Other non-current assets				
<b>Total non-current assets</b>		<b>5,261,363,319.50</b>	5,433,492,066.13	5,543,492,066.13
<b>Total assets</b>		<b>10,673,688,201.82</b>	12,238,994,590.62	12,195,949,631.97

## BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

Dec 31st, 2018 Monetary Unit: RMB

<b>Liabilities and owners' shareholders' equity</b>	<i>Note VI</i>	<b>Dec 31st, 2018</b>	Jan 1st, 2018	Dec 31st, 2017
<b>Current liabilities:</b>				
Short-term loans		<b>3,249,320,000.00</b>	2,578,420,000.00	2,578,420,000.00
Trading financial liabilities				
Derivative financial liabilities		<b>2,727,592.84</b>	12,800,000.00	12,800,000.00
Notes payable & Accounts payable		<b>1,515,368,588.33</b>	1,746,049,820.24	1,746,049,820.24
Advance from customers				175,265,170.24
Contractual liability		<b>143,129,821.26</b>	175,265,170.24	
Employee salary payable		<b>66,701,364.42</b>	48,217,318.16	48,217,318.16
Taxes payables		<b>5,115,325.67</b>	7,556,819.53	7,556,819.53
Other payables		<b>174,453,029.69</b>	246,551,923.54	246,551,923.54
Liabilities classified as held for sale				0.00
Non-current liabilities due within one year		<b>71,492,363.64</b>	1,516,708,059.16	1,516,708,059.16
Other current liabilities		<b>27,948,212.15</b>	8,801,794.13	8,801,794.13
<b>Total current liabilities</b>		<b>5,256,256,298.00</b>	6,340,370,905.00	6,340,370,905.00
<b>Non-current liabilities</b>				
Long-term loans		<b>1,030,000,000.00</b>	650,000,000.00	650,000,000.00
Bonds payable				
Including: Preference shares				
Perpetual bond				
Long-term employee salary payable		<b>71,270,468.46</b>		
Estimated Liabilities		<b>3,981,625.85</b>	13,699,471.42	13,699,471.42
Deferred income		<b>114,491,964.32</b>	125,589,939.30	125,589,939.30
Deferred tax liabilities		<b>9,311,567.48</b>	6,456,743.80	
Other non-current liabilities				
<b>Total non-current liabilities</b>		<b>1,229,055,626.11</b>	795,746,154.52	789,289,410.72
<b>Total liabilities</b>		<b>6,485,311,924.11</b>	7,136,117,059.52	7,129,660,315.72

## BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

Dec 31st, 2018 Monetary Unit: RMB

<b>Liabilities and owners' shareholders' equity (continued)</b>	<i>Note VI</i>	<b>Dec 31st, 2018</b>	Jan 1st, 2018	Dec 31st, 2017
<b>Shareholder's equity</b>				
Share capital		<b>985,850,000.00</b>	985,850,000.00	985,850,000.00
Other equity instruments				
Including: Preferred shares				
Perpetual bond				
Capital reserves		<b>2,004,793,045.95</b>	2,004,793,045.95	2,004,793,045.95
Less: Treasury shares				
Other comprehensive income				
Surplus reserves				
General risk reserves		<b>367,607,888.33</b>	367,607,888.33	363,949,066.84
Retained earnings		<b>830,125,343.43</b>	1,744,626,596.82	1,711,697,203.46
<b>Total shareholder's equity</b>		<b><u>4,188,376,277.71</u></b>	<u>5,102,877,531.10</u>	<u>5,066,289,316.25</u>
<b>Total liabilities and shareholder's equity</b>		<b><u><u>10,673,688,201.82</u></u></b>	<u><u>12,238,994,590.62</u></u>	<u><u>12,195,949,631.97</u></u>

(The attached notes to the financial statements are part of the consolidated financial statements)

*Legal Representative:*  
**Wu Yong**

*Chief Financial Officer:*  
**Liu Jiguo**

*Accounting Manager:*  
**Zhou Juan**

# INCOME STATEMENT OF THE PARENT COMPANY

Year of 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

Item	Note VI	Amount in current year	Amount in last year
<b>1. Operating revenue</b>	Note 4	<b>4,310,724,662.46</b>	5,308,725,994.85
Less: Cost of operation	Note 4	<b>4,318,023,155.66</b>	4,623,240,734.86
Taxes and surcharges		<b>18,452,441.30</b>	18,637,543.07
Selling expenses		<b>60,104,321.83</b>	61,189,781.34
Administrative expenses		<b>350,669,827.16</b>	251,555,041.95
R & D expenses		<b>282,380,738.77</b>	313,513,211.01
Financial expenses		<b>88,498,043.88</b>	13,067,381.10
Including: Interest expenses		<b>175,620,158.72</b>	118,680,593.39
Interest income		<b>92,737,537.92</b>	82,320,107.65
Loss on impairment of assets		<b>259,229,828.56</b>	10,869,517.75
Credit loss		<b>12,892,365.12</b>	
Add: Gain arising from the changes in fair value		<b>21,830,336.46</b>	35,763,127.65
Investment income (Losses listed as "-")	Note 5	<b>74,275,866.70</b>	113,224,433.93
Including: income from investments in associates and joint ventures	Note 5	<b>-10,673,611.87</b>	-485,404.14
Net Open Hedging Income (Losses listed as "-")		<b>29,104,565.04</b>	-27,633,000.00
Change in fair value (Losses listed as "-")		<b>-308,745.84</b>	2,735,204.12
Asset disposal income			
<b>2. Operating profit</b>		<b>-954,624,037.46</b>	140,742,549.47
Add: Non-operating income		<b>7,916,743.92</b>	15,886,328.54
Less: Non-operating expenses		<b>2,799,119.29</b>	13,480,609.77
<b>3. Total profit</b>		<b>-949,506,412.83</b>	143,148,268.24
Less: Income tax expenses		<b>-35,005,159.44</b>	-2,193,045.07
<b>4. Net profit</b>		<b>-914,501,253.39</b>	145,341,313.31
Continuous operating net profit		<b>-914,501,253.39</b>	145,341,313.31
Termination of net profit			

## INCOME STATEMENT OF THE PARENT COMPANY (CONTINUED)

Year of 2018 Monetary Unit: RMB

Item	Note VI	Amount in current year	Amount in last year
<b>5. Net other comprehensive income after tax</b>		<b>0.00</b>	-10,000,365.91
(1) Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		<b>0.00</b>	0.00
1. Re-measurement of Benefit Plan Change			
2. Share of other comprehensive income of investee that will not be subsequently reclassified to profit and loss under equity method			
3. Changes in Fair Value of Investment in Other Equity Instruments			
4. Fair Value Change of Enterprise's Credit Risk			
5. Others			
(2) Other comprehensive income that will be subsequently reclassified to profit and loss		<b>0.00</b>	-10,000,365.91
1. Share of other comprehensive income of investee that will be subsequently reclassified to profit and loss under equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets			-10,000,365.91
3. Gains and losses from held-to-maturity investment reclassified as financial assets available-for-sale			
4. Changes in Fair Value of Other Creditor's Rights Investment			
5. Amount of financial assets reclassified into other comprehensive returns			
6. Credit impairment reserve for other creditor's rights investment			
7. Effective part of hedging gains and losses from cash flows			
8. Cash Flow Hedging Reserve			
9. The Balance of Conversion of Foreign Currency Financial Statements			
10. Others			
<b>6. Total comprehensive income</b>		<b>-914,501,253.39</b>	135,340,947.40
<b>7. Earnings per share:</b>			
(1) Basic earnings per share			
(2) Diluted earnings per share			

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:  
**Wu Yong**

Chief Financial Officer:  
**Liu Jiguo**

Accounting Manager:  
**Zhou Juan**

# CASH FLOW STATEMENT OF THE PARENT COMPANY

Year of 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

Item	Note XVI	Amount in current year	Amount in last year
<b>1. Cash Flow from Operating Activities:</b>			
Cash from sale and render service		5,163,599,582.21	5,469,940,659.91
Refund of tax and levies		290,900,393.94	3,899,551.37
Cash relating to other business activities		53,510,070.60	21,899,662.63
		<u>5,508,010,046.75</u>	<u>5,495,739,873.91</u>
Sub-total of cash inflows from operating activities			
Cash payments for goods purchased and services received		4,694,219,968.91	5,110,841,393.34
Cash paid to and on behalf of employees		615,682,963.36	633,849,966.38
Payments of taxes and surcharges		18,702,129.09	36,388,429.77
Cash paid relating to other operating activities		170,273,828.20	77,333,461.23
		<u>5,498,878,889.56</u>	<u>5,858,413,250.72</u>
Sub-total of cash outflows from operating activities			
<b>Net cash flows from operating activities</b>		<u><u>9,131,157.19</u></u>	<u><u>-362,673,376.81</u></u>
<b>2. Cash flows from investing activities</b>			
Cash received from return of investments		555,000,000.00	141,390,088.00
Cash received from investments income		197,375,139.79	81,566,954.78
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		5,065,685.32	2,755,670.56
Net cash received from disposal of subsidiaries and other business units			31,000,000.00
Cash received relating to other investing activities			18,900,000.00
		<u>757,440,825.11</u>	<u>275,612,713.34</u>
Sub-total of cash inflows from investing activities			
Cash paid to acquire fixed assets, intangible assets and other long-term assets		137,915,881.34	201,875,373.28
Cash paid for investments		1,164,742,000.00	759,037,628.97
Net cash paid to acquire subsidiaries and other business units			5,283,896.52
Cash paid relating to other investing activities			0.00
		<u>1,302,657,881.34</u>	<u>966,196,898.77</u>
Sub-total of cash outflows from investing activities			
<b>Net cash flows from investing activities</b>		<u><u>-545,217,056.23</u></u>	<u><u>-690,584,185.43</u></u>

## CASH FLOW STATEMENT OF THE PARENT COMPANY (CONTINUED)

Year of 2018 Monetary Unit: RMB

Item	Note XVI	Amount in current year	Amount in last year
<b>3. Cash flows from financing activities</b>			
Cash received from investment absorption			0.00
Cash received from the loan		<b>4,688,183,000.00</b>	4,241,480,600.00
Cash received relating to other financing activities			0.00
Sub-total of cash inflows from financing activities		<b>4,688,183,000.00</b>	4,241,480,600.00
Cash paid for settlement of borrowings		<b>5,109,192,918.56</b>	2,394,951,793.05
Cash paid for dividends, profits appropriation or payments of interest		<b>216,357,702.90</b>	201,151,740.99
Cash paid relating to other financing activities		<b>145,500.00</b>	17,925,712.05
Sub-total of cash outflows from financing activities		<b>5,325,696,121.46</b>	2,614,029,246.09
<b>Net cash flows from financing activities</b>		<b>-637,513,121.46</b>	1,627,451,353.91
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>16,940.23</b>	683,461.60
<b>5. Net increase in cash and cash equivalents</b>		<b>-1,173,582,080.27</b>	574,877,253.27
Add: Cash and cash equivalents at the beginning of the year		<b>2,453,757,053.43</b>	1,878,879,800.16
<b>6. Cash and cash equivalents at the end of the year</b>		<b>1,280,174,973.16</b>	2,453,757,053.43

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:  
**Wu Yong**

Chief Financial Officer:  
**Liu Jiguo**

Accounting Manager:  
**Zhou Juan**

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY

Year of 2018 Monetary Unit: RMB

Prepared by: First Tractor Company Limited

Item	Note XVI	Amount in this year								Total owners' equity
		Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Retained earnings	
<b>I. Closing balance of prior year</b>		985,850,000.00	0.00	2,004,793,045.95	0.00	0.00	0.00	363,949,066.84	1,711,697,203.46	5,066,289,316.25
Add: accounting policy changes								3,658,821.49	32,929,393.36	36,588,214.85
Prior errors' correction										-
Others										-
<b>II. Balance at the beginning of current year</b>		985,850,000.00	-	2,004,793,045.95	-	-	-	367,607,888.33	1,744,626,596.82	5,102,877,531.10
<b>III. Increases/decreases in current year</b>		-	-	-	-	-	-	-	-914,501,253.39	-914,501,253.39
(I) Total comprehensive income									-914,501,253.39	-914,501,253.39
(II) Capital contributed by owners and capital decreases		-	-	-	-	-	-	-	-	-
1. Capital contributed by owner										-
2. Holders of other equity instruments invested capital										-
3. The amount of the shares paid into the shareholders' rights and interests										-
4. Others										-
(III) Profit distribution		-	-	-	-	-	-	-	-	-
1. Appropriation of surplus reserve										-
2. Profit distributed to owners (or stockholders)										-
3. Others										-
(IV) Transfers within the owners' equity		-	-	-	-	-	-	-	-	-
1. Capital (or stock) transferred from capital surplus		-								-
2. Capital (or stock) transferred from surplus reserve		-								-
3. Recovery of losses by surplus reserve										-
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans										-
5. Others										-
(V) Special reserves		-	-	-	-	-	-	-	-	-
1. Extraction of special reserves							7,134,075.05			7,134,075.05
2. Use of special reserves							-7,134,075.05			-7,134,075.05
(VI) Others										-
<b>IV. Balance at the end of current year</b>		985,850,000.00	-	2,004,793,045.95	-	-	-	367,607,888.33	830,125,343.43	4,188,376,277.71

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY (CONTINUED)

Year of 2018 Monetary Unit: RMB

Item	Amount in last year								
	Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Retained earnings	Total owners' equity
<b>I. Closing balance of prior year</b>	995,900,000.00	0.00	2,018,025,662.91	19,140,912.00	10,000,365.91	0.00	349,414,935.51	1,634,260,306.70	4,988,460,359.03
Add: accounting policy changes									-
Prior errors' correction									-
Others									-
<b>II. Balance at the beginning of current year</b>	995,900,000.00	-	2,018,025,662.91	19,140,912.00	10,000,365.91	-	349,414,935.51	1,634,260,306.70	4,988,460,359.03
<b>III. Increases/decreases in current year</b>	<u>-10,050,000.00</u>	<u>-</u>	<u>-13,232,616.96</u>	<u>-19,140,912.00</u>	<u>-10,000,365.91</u>	<u>-</u>	<u>14,534,131.33</u>	<u>77,436,896.76</u>	<u>77,828,957.22</u>
(I) Total comprehensive income					-10,000,365.91			145,341,313.31	135,340,947.40
(II) Capital contributed by owners and capital decreases	-10,050,000.00	-	-13,232,616.96	-19,140,912.00	-	-	-	-	-4,141,704.96
1. Capital contributed by owner	-10,050,000.00								-10,050,000.00
2. Holders of other equity instruments invested capital									-
3. The amount of the shares paid into the shareholders' rights and interests									-
4. Others			-13,232,616.96	-19,140,912.00					5,908,295.04
(III) Profit distribution	-	-	-	-	-	-	14,534,131.33	-70,727,581.33	-56,193,450.00
1. Appropriation of surplus reserve							14,534,131.33	-14,534,131.33	-
2. Profit distributed to owners (or stockholders)								-56,193,450.00	-56,193,450.00
3. Others									-
(IV) Transfers within the owners' equity	-	-	-	-	-	-	-	-	-
1. Capital (or stock) transferred from capital surplus	-								-
2. Capital (or stock) transferred from surplus reserve	-								-
3. Recovery of losses by surplus reserve									-
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans									-
5. Others									-
(V) Special reserves	-	-	-	-	-	-	-	-	-
1. Extraction of special reserves						7,054,363.00			7,054,363.00
2. Use of special reserves						-7,054,363.00			-7,054,363.00
(VI) Others								2,823,164.78	2,823,164.78
<b>IV. Balance at the end of current year</b>	<u>985,850,000.00</u>	<u>-</u>	<u>2,004,793,045.95</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363,949,066.84</u>	<u>1,711,697,203.46</u>	<u>5,066,289,316.25</u>

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:  
**Wu Yong**

Chief Financial Officer:  
**Liu Jiguo**

Accounting Manager:  
**Zhou Juan**

# NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED

## I. GENERAL INFORMATION OF THE COMPANY

### (a) The registered address of business license, the type of organization, and the address of headquarters.

First Tractor Company Limited (referred hereunder as “the Company”; the Company together with its subsidiaries are referred as “the Group”) is a limited company located in People’s Republic of China and established on May 8, 1997. the Company took over the principle business on tractor manufacturing and the corresponding assets and liabilities of YTO Group Corporation (referred hereunder as the “YTO Group”), with the net assets of RMB636,346,000 equivalent to 450,000,000 state-owned corporation shares held by the Company, according to the reorganization plan effective from December 31, 1996. Thereafter, the Company issues 335,000,000 H shares (par value: RMB1) under approval and the issuance resulted in the increase registered and paid-up share capital of the Company to RMB785,000,000. The Company has been listed in HongKong Exchanges and Clearing Limited (“HKEx”) since June 23, 1997. On October 24, 2007, the Company allotted 60,900,000 H shares with the price of HKD3.95/share, which increased the registered and paid-up share capital of the Company to RMB845,900,000. According to the Permission [2012] No. 736 of China Securities Regulatory Commission, the Company was approved to publicly issue RMB common stocks not exceeding 150,000,000 shares, and the Company actually issued 150,000,000 shares with the issue price of RMB5.40/share on July 27, 2012. The total proceed from the issuance of shares was received by the Company on August 1, 2012. The Company was listed and started to trade in Shanghai Stocks Exchange on August 8, 2012. The registered and paid-up share capital of the Company had increased to RMB995,900,000.

Approved by the 2015 annual general meeting, the first meeting of 2016 A share class shareholders’ meeting, and the first meeting of 2016 H share class shareholders’ meeting, the total number of H shares repurchased and cancelled by the Company from July 19, 2016 to May 26, 2017 was 10,050,000 shares.

After issuing bonus share, selling new shares, increasing share capital, issuing new paper, and share repurchase, by December 31, 2018, the total capital stock of company is 985,850,000 shares and registered capital is RMB985,850,000. The registered address of business license of the Company is No. 154 Construction Road, Luoyang, Henan Province. The parent company of the Company is YTO Group Corporation (referred hereunder as the “YTO Group”) and the ultimate controlling party of the YTO Group is China National Machinery Industry Corporation (referred hereunder as the “SinoMach Group”).

### (b) The nature of the Group’s business and its main business activities

The Group is in agricultural machinery manufacturing industry. Its business scope mainly includes manufacturing and selling agricultural machineries, diesel engines and fuel injections, other machineries and operating business of finance company.

### (c) The approval of the financial statements

The financial statements are reported in March 29, 2019 by the board of directors of the Group.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### II. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group include 18 companies, which are:

The name of subsidiaries	The type of Subsidiaries	Rank	Holding Ratio (%)	Representative Ratio (%)
Zhongfei Heavy Industry Investment Co., Ltd.	holding subsidiaries	2	55.00	55.00
Changtuo Agricultural Machinery Equipment Group Co., Ltd.	participating stock subsidiaries	2	33.33	66.66
YTO Heilongjiang Agricultural Equipment Co., Ltd.	wholly-owned subsidiaries	2	100.00	100.00
Luoyang Tractor Research Institute Co., Ltd.	holding subsidiaries	2	51.00	51.00
YTO International Economic and Trade Co., Ltd.	wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) Flag Auto-body Co., Ltd.	wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) fuel injection Co., Ltd.	holding subsidiaries	2	86.11	86.11
Brilliance China Machinery Holding Co., Ltd.	holding subsidiaries	2	90.10	90.10
Luoyang Changxing agricultural machinery Co., Ltd.	wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) Shentong Engineering Machinery Co., Ltd.	wholly-owned subsidiaries	2	100.00	100.00
China YTO Group Finance Limited Liability Company	holding subsidiaries	2	98.79	98.79
YTO (Luoyang) handling machinery Co., Ltd.	holding subsidiaries	2	93.39	93.39
YTO (Luoyang) Diesel Engine Co., Ltd.	holding subsidiaries	2	85.47	85.47
YTO (Luoyang) Shunxing parts limited liability company	wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) Foundry Co., Ltd.	wholly-owned subsidiaries	2	100.00	100.00
YTO (Xinjiang) Dongfanghong equipment Machinery Co., Ltd.	wholly-owned subsidiaries	2	100.00	100.00
YTO France	wholly-owned subsidiaries	2	100.00	100.00
YTO Belarus Technology Co. Ltd.	wholly-owned subsidiaries	2	100.00	100.00

The reason why that the proportion of the subsidiary is different from the proportion of the voting rights and holding half or below the voting power but still controlling the unit invested can refer to “VIII. Interests in other entities 1. Interests in Subsidiaries”.

Compared with the previous period, the number of subjects included in the consolidated financial statements in the current period decreased by 1 subsidiary which is rank 2 and 2 subsidiaries which is rank 3.

- Subsidiaries no longer included in the scope of merger, special purpose subjects, business entities that lose control by entrusting or leasing in the current period.

#### Company

#### The reason of change

Luoyang Changhong Industry and Trade Co., Ltd.

Merger

YTO (Jiangyan) Power Machinery Co., Ltd.

Merger

Luoyang Towing Vehicle Engineering Technology Co., Ltd.

Merger

Detailed information on the subject of change in the scope of merger can be found in “Note 7: Change in the scope of consolidation”.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

#### 1. Basis of preparation

Based on the transactions and events incurred, the consolidated financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises and relevant stipulations (hereafter collectively referred as “ASBEs”) by the Ministry of Finance of the PRC, No.15 Information Disclosures Regulations for Companies Offering Shares in Public – General Rules of Preparing Financial Reports (revised in 2014) issued by China Securities Regulatory Commission (CSRC), disclosure requirements by Rules Governing the Listing of Securities issued by Hong Kong Stock Exchange and Companies Ordinance, and based on the accounting policies stated in the “Note IV. Principal accounting policies and accounting estimates”.

#### 2. Going concern

The sustainability of the 12 months of the report from the end of the period has been evaluated. No significant matters or situation has been found which could influence the ability to maintain its sustainability. Therefore, the financial statements are based on the assumption of going concern.

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

#### 1. Specific accounting policies and accounting estimates

Based on historical experience and other factors, including reasonable expectations for future events, the Group carries out a continuous evaluation of the important accounting estimates and key assumptions adopted. If significant changes occur, the following important accounting estimates and key assumptions may lead to a significant impact on the asset and debt value of the future accounting year:

- (a) Impairment of receivables. The management of the Company assesses the credit risk based on the relevant asset portfolio and measures its loss provision based on the amount of expected credit losses over the life of the Group. If the expected figures are different from the original estimates, the difference will affect the book value of accounts receivable, as well as the impairment charges during the estimated changes.
- (b) Estimation of inventory reduction. The management of the Company has measured the lower between the cost and the net realizable value on the balance sheet day and the calculation of the net realizable value needs to be assumed and estimated. If the management of the Company revise the costs when estimating the selling price or project completed, it will affect the estimation of net realizable value of inventory, the differences of estimation will affect the provision of inventory depreciation.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 1. Specific accounting policies and accounting estimates (Continued)

- (c) Estimated useful life and estimated net residual value of fixed assets. The estimated useful life and estimated net residual value of fixed assets are based on the past actual life and actual net residual value of fixed assets with similar properties and functions. In the process of using fixed assets, the economic environment, technical environment and other environment may have a greater impact on the useful life and estimated net residual value of fixed assets. If the estimated useful life and net residual value of fixed assets differ from the original estimate, management will make appropriate adjustments.
- (d) The fair value of financial assets. The Group determines the fair value of financial instruments that do not have an active market using various valuation techniques including discounted cash flow method. For a financial asset that is legally restricted to the Group's disposal during a specified period, its fair value is based on market quotes and adjusted based on the characteristics of the instrument. At the time of valuation, the Group needs to estimate the credit risk, market volatility and correlation of itself and counterparties, and the changes in these related factors assumptions will affect the fair value of financial instruments.
- (e) Deferred income tax assets and deferred income tax liabilities.

In recognizing deferred income tax assets, the Group has considered the possibility of deductible temporary differences and the reversal of deductible losses. The deductible temporary differences mainly include the asset impairment provision, the accrued expenses that have not been approved for pre-tax deduction, and the impact of offsetting internal unrealized profits. The recognition of deferred income tax assets is based on the Group's expectation that the deductible temporary difference and the deductible losses can be reversed in the foreseeable future by generating sufficient taxable income through continuing operations.

The Group has provided current income tax and deferred income tax based on current tax law requirements and current best estimates and fake designs. If the future changes due to tax laws or related circumstances, the Group needs to adjust the current income tax and deferred income tax.

- (f) Income tax. In normal business activities, the tax treatment in many transactions and matters are uncertain. A significant decision on the income tax is needed. If the final identification result of these tax matters is different from the amount originally entered the account, the difference will affect the amount of tax payable during the final determination period.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 2. Statement of compliance of Accounting Standards for Business Enterprises

In accordance with the Accounting Standards for Business Enterprises (ASBEs), the financial statements of the Group present truly and completely the consolidated and the financial position of the Group and their financial performance and cash flows and other related information.

Given the fact that Chinese ASBEs are equivalent to Hong Kong Financial Reporting Standards (HKFRSs), the Hong Kong Securities and Futures Commission and the Hong Kong Stock Exchange have both accepted financial statements prepared by Hong Kong listed companies originally from mainland China in accordance to the Chinese ASBEs and audited by accounting firms based in mainland China with relevant qualifications. Approved by the 2014 second extraordinary Shareholders Meeting of the Group on 31 October 2014, the Group no longer prepares financial statements under both ASBEs and HKFRSs from the reporting year of 2014. Only the financial statements prepared in accordance to the Chinese ASBEs will be provided to shareholders of A shares and H shares of the Group with consideration of disclosure of the rules of the Hongkong.

#### 3. Accounting year

The accounting year of the Group is from 1 January to 31 December of each calendar year.

#### 4. Recording currency

The recording currency of the Group is Renminbi (RMB). Its subsidiaries, associates and joint operators determine their own recording currency according to their main economic environment.

The currency used by the Group at the time of the preparation of this financial statement is RMB.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 5. Accounting method for business combination under the common control and not under the common control

- (a) To take many transactions as a package transaction for accounting treatment, the terms, conditions, and economic effects of each transaction in a step by step process conform to one or more of the following cases:
- I. These transactions are occurred at the same time or have considered the impact of each other.
  - II. All these transactions together can achieve a complete business result.
  - III. The occurrence of a transaction depends on the occurrence of at least one other transaction.
  - IV. A deal alone is not economical, but it is economic when considering together with other transactions.

(b) ***Enterprise merger under common control***

The assets and liabilities acquired by the Group during business combination shall be measured according to the book value of the assets and liabilities of the merged party, including the final controlling party's acquisition of the merged party, in the consolidated financial statements of the final controlling party. The difference between the net assets book value acquired in the merger and the book value of the combined consideration value (or the total value of the issued shares) should be adjusted by the equity premium in the capital surplus, if it is not enough, adjust retained earnings.

If there exist contingent consideration which need to confirm the estimated liabilities or assets, the difference between the estimated liabilities or the amount of assets and the price of subsequent contingent consideration, we should adjust the capital surplus (capital premium or equity premium). When the capital surplus is insufficient, adjust the retained earnings.

As enterprise merger realized by multiple transactions which belong to a package transaction, considering these transactions as a control transaction when carrying out accounting method. In the case of non-package transactions, on the day of gaining control day, the difference between the initial investment cost of long-term equity investment and the book value of the new payment consideration with the sum of the book value of the new share price before the merger should be adjusted by adjusting capital surplus. If the capital stock is not enough to be reduced, the retained earnings will be adjusted. Accounting treatment would not be carried out for equity investment which measured by equity method or identification and measurement criteria for financial instruments before merger until disposing of the investment based on the same assets or liabilities that are directly disposed of with the invested unit. Changes in the owner's equity exclude net profit and loss, other comprehensive income and profit distribution would not be processed until the changes is transferred into the current profits and losses.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 5. Accounting method for business combination under the common control and not under the common control (Continued)

##### (c) *Enterprise merger not under common control*

The purchase date refers to the date that the Group actually obtains the control right of the buyer, that is, the date of transfer of the net assets of the buyer or the control right of production and operation decision to the Group. The Group generally believes that the transfer of control is realized when the following conditions are met:

- I. An enterprise merger contract or agreement has been approved by the internal authority of the Group.
- II. The merger of enterprises should be approved by the relevant competent authorities of the state and has been approved.
- III. The necessary transfer procedures for property rights have been carried out.
- IV. The Group has paid most of the consolidated price and has the ability and plan to pay the surplus.
- V. The Group has actually controlled the financial and operating policies of the purchaser and has the corresponding interest and the corresponding risk.

The difference between the fair value and the book value when the assets, liabilities incurred or incurred on the purchase date are included in the profits and losses of the current period.

When the cost of the merger is larger than the fair value share of the recognizable net assets obtained by the purchaser, the difference between these two is confirmed as the goodwill. When cost of the merger is less than the fair value of the recognizable net assets obtained by the purchase, the difference shall be counted into the profit and loss of the current period after the review.

The merger of enterprises under different control, which is realized step by step through multiple exchange transactions, belongs to a package transaction, and each transaction is treated as a transaction that gains control. When it does not belong to a package deal, the equity investments held before the merger date are accounted for by the equity method, the initial cost of investment is the sum of the book value of the equity investment held by the purchaser before the purchase date and the additional investment cost on the purchase date. When disposing the equity investment whose other comprehensive income recognized by equity method for equity investment hold before purchase date shall be conducted on the same basis as direct disposal of related assets or liabilities by the invested entity. The initial investment cost of equity investment accounting by financial instrument recognition and measurement standards on merger date is the sum of the fair value on the date of merger and the additional investment cost. The difference between the fair value and the book value of the original ownership, as well as the changes in the accumulated fair value originally included in other comprehensive gains, shall all be transferred to the investment income of the current period on the merger date.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 5. Accounting method for business combination under the common control and not under the common control (Continued)

*(d) The costs of merger*

Intermediary costs and other direct related expenses, such as audit, legal service, evaluation and consultation, and other direct related expenses, are included in the current profit and loss at the time of occurrence. The transaction costs for the issue of equity securities for an enterprise which could be directly attributable to the rights and interests can deduct from rights and interests.

#### 6. Preparation of consolidated financial statements

*(a) Scope of the merger*

The consolidation scope of the Group includes all subsidiaries controlled.

*(b) Consolidated procedures*

Based on the financial statements of their own and each subsidiary, the Group prepare the consolidated financial statements refer to other relevant information. The Group consider the entire enterprise group as an accounting entity when preparing the consolidated financial statements. In accordance with the relevant accounting standards of measurement and reporting requirements, unified accounting policies reflect the enterprise overall financial status, operating results and cash flow.

All subsidiaries included in the consolidated financial statements are consistent with the Company's accounting polices. When the accounting policies adopted by the subsidiaries inconsistent with the Company, the necessary adjustment period according to the Company's accounting policies and accounting is needed.

The consolidated financial statements set off the internal transactions between the Company and its subsidiaries which affect the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated shareholders' equity change statement. When the opinion of the group consolidated financial statements and the subsidiaries are different for the same transaction, the transitions should be adjusted from the perspective of enterprise group.

The share of minority shareholders in the owner's equity, current net profit and loss and current comprehensive income is separately shown under the owner's equity item of the consolidated balance sheet, the net profit and the total income of the consolidated income statement. The current share losses shared by minority shareholders exceed the balance formed by the minority shareholders' share in the initial owner's equity, then deduct the imbalance between these two from minority interests.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 6. Preparation of consolidated financial statements (Continued)

##### *(b) Consolidated procedures (Continued)*

When the subsidiary which was under the same control acquired through business combination, the financial statements should be adjusted based on the book value of its assets and liabilities in the final control party's financial statements (including the goodwill caused by the final controlling party's acquisition of the subsidiary).

When the subsidiary which was not under the same control acquired through business combination, the financial statements should be adjusted which was based on fair value of the identifiable net assets at the acquisition date.

#### 7. Category on joint arrangement and accounting treatment on joint operations

The joint arrangement of the Group includes joint operations and joint venture entities. For joint operations, the Group, as the joint operator of the joint operations, recognises assets and liabilities solely held and liabilities assumed by the Group, recognises assets and liabilities jointly owned proportionally, and recognises income and expenses solely or proportionally based on the related agreements. When the Group incurs asset transactions of purchase and sales not constituting to business transactions, the Group only recognizes the portion of profit or loss generated due to the transaction attributable to other parties of the joint operations.

#### 8. Cash and cash equivalents

Cash in the cash flow statement of the Group indicates both cash on hand and the deposit held in bank which are available for payment at any time. Cash equivalents are held less than 3 months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 9. Foreign exchange translation for financial statements

##### **(1) Transactions involving foreign currencies**

Foreign currency transactions of the Group are translated into RMB at the spot exchange rate on the date of the transaction.

The monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance date. Except for the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized, the exchange difference is accounted into current profit or loss. For non-monetary items measured in foreign currency under historical cost method, the exchange rate on the date when the cost is recognized is applied and the amount in RMB is consistent.

When convert non-monetary items into foreign currency by the fair value of the spot exchange rate, the exchange difference is counted as the profits and losses of the current period as the profit and loss of the fair value change. If non-monetary item used for sale of foreign currency, the balance of exchange formed into other comprehensive benefits.

##### **(2) Foreign currency translation of financial statements**

The asset and liability items in the foreign currency balance sheets are translated at a spot exchange rate as at the balance sheet date. The owner's equity items, except for retained earnings, are translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit or loss statements are translated at the average exchange rate during the accounting period. The difference caused by above translation are separately presented under other comprehensive income.

When dealing with overseas operations, the difference between other comprehensive income items in the balance sheet and equivalent items of overseas operations in the foreign currency financial statements shall be transferred from other comprehensive income items to the current profits and losses. When disposing part of equity investment or other situation which leads to a reduction in the proportion of overseas business rights and interests but not lose control of overseas business, the difference between the foreign currency statements related to the overseas operation and disposal will be attributable to minority shareholders' rights and interests which means it will not be transferred into current profits or losses. When dealing with partial shares of overseas operation as a joint venture or an associate, the difference between the foreign currency statements related to the overseas operation is transferred to the current profit or loss according to the proportion of the overseas operation.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments

Financial instruments include financial assets, financial liabilities, and equity instrument.

##### **(1) Category of financial instruments**

The Group classifies financial assets into the following three categories based on the business model of the financial assets under management and the contractual cash flow characteristics of financial assets:

- (a) Financial assets measured at amortized cost.
- (b) Financial assets measured at fair value through changes in other comprehensive income.
- (c) Financial assets measured at fair value through changes in profit or loss.

The classification of debt instrument investment depends on the business model in which the Group holds the investment; the classification of equity instrument investment depends on whether the Group has made an irrevocable choice at the initial confirmation of fair value and its changes are included in other comprehensive benefits. The Group only reclassifies all affected financial assets when changing the business model of financial assets.

Financial liabilities are divided into the following two categories:

- (a) Financial liabilities measured at fair value through profit or loss
- (b) Financial liabilities measured at amortized cost.

##### **(2) The recognition and measurement of financial instruments**

###### *(a) Financial assets measured at amortized cost*

Financial assets classified as amortized cost are classified as financial assets that meet the following conditions:

- I. The business model for managing the financial assets is aimed at collecting contractual cash flows.
- II. The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### *(2) The recognition and measurement of financial instruments (Continued)*

*(b)* Financial assets measured at fair value through changes in other comprehensive income.

The financial assets of the Group that meet the following conditions are classified into financial assets measured at fair value and whose changes are included in other comprehensive income:

- I. The business model for managing the financial assets is aimed at both the collection of contractual cash flows and the sale of the financial assets.
- II. The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

At initial recognition, the Group may designate non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income, and recognise dividend income when the conditions are met. Once the designation is made, it cannot be revoked.

*(c)* *Financial assets measured at fair value through changes in profit or loss*

The Group will divide financial assets except measured by amortized cost and financial assets measured by fair value through changes other comprehensive income into financial assets measured by fair value and whose changes are included in current profits and losses.

Where a financial asset is recognized or valued in the merger of an enterprise not under the same control, the financial asset shall be classified as a financial asset measured at fair value and whose changes are included in the profits and losses of the current period.

At the time of initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the financial assets can be designated as financial assets measured at fair value through changes in profit or loss. Once the designation is made, it cannot be revoked.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### **(2) The recognition and measurement of financial instruments (Continued)**

##### *(d) Financial liabilities measured at fair value through profit or loss.*

This category includes transactional financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated as at fair value through profit or loss.

In the case of a business combination that is not under the same control, if the Group is recognized by the purchaser or has a consideration to form a financial liability, the financial liability is measured at fair value through profit or loss.

In the initial recognition, in order to provide more relevant accounting information, the Group can designate financial liabilities as financial liabilities measured at fair value through profit or loss. The designation is not revoked and should meet one of the following conditions:

- I. Can eliminate or significantly reduce accounting mismatches.
- II. According to the enterprise risk management or investment strategy specified in the official written documents, manage and evaluate the financial liability portfolio or financial assets and financial liabilities based on fair value, and report to key managers on the basis of this within the enterprise.

##### *(e) Financial liabilities measured at amortized cost.*

Except for the following items, the Group classifies financial liabilities as financial liabilities measured at amortized cost:

- I. Financial liabilities measured at fair value through profit or loss.
- II. Financial assets transfer does not meet the conditions for derecognition or financial liabilities arising from the transfer of transferred financial assets.
- III. Financial guarantee contracts that are not in the first two categories of this article, and loan commitments that are not subject to the market rate in the case of category I of this article.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### **(3) Initial measurement of financial instruments**

The Group's financial assets or liabilities are measured at fair value when initially recognized. For financial assets and liabilities measured at fair value and whose changes are included in current profits and losses, relevant transaction costs are directly included in current profits and losses. For the other financial assets and losses, the relevant transaction costs are included in the initial confirmation amount.

Fair value is usually the transaction price of relevant financial assets or liabilities. Where there is a difference between the fair value of a financial asset or financial liability and the transaction price, the following conditions shall be treated:

At initial recognition, the fair value of a financial asset or financial liability is based on the quotation of the same asset or liability in an active market or the valuation technique using only observable market data, the difference between the fair value and the transaction price can be confirmed as a gain or loss.

At the initial recognition, if the fair value of financial assets or financial liabilities is determined in other ways, the difference between the fair value and the transaction price is deferred. After the initial recognition, the deferred difference is recognized as the gain or loss of the corresponding accounting period based on the degree of change in the corresponding accounting period. This factor should be limited to factors that market participants will consider when pricing the financial instrument, including time.

##### **(4) Subsequent measurement of financial instruments**

After the initial recognition, the financial assets of different categories are measured at amortized cost, measured at fair value through profit or loss and measured at fair value through profit or loss.

The amortized cost of financial assets or financial liabilities is determined by the following adjustments to the initial recognition amount of the financial assets or financial liabilities:

- I. Deduct the principal that has been repaid.
- II. Add or subtract the accumulated amortization amount formed by amortizing the difference between the initial confirmation amount and the maturity date using the effective interest method.
- III. Deduct the accumulated provision for losses (only applicable to financial assets).

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### **(4) Subsequent measurement of financial instruments (Continued)**

The gains or losses arising from financial liabilities measured at amortized cost and not part of any hedging relationship shall be included in the profits and losses of the current period at the time of termination or recognition or included in the profits and losses of the relevant period in amortization according to the actual interest rate method except for financial assets.

When the financial liability of the Group is initially recognized, the change in the fair value of the financial liability caused by the change in the credit risk of the enterprise shall be included in other comprehensive benefits, and other changes in the fair value shall be included in the current profits and losses. However, if the accounting treatment results in or expands the accounting mismatch in the profit and loss, then all the gains or losses of the financial liability (including the influence amount of the change in the credit risk of the enterprise itself) shall be included in the current profit and loss.

##### **(5) The confirmation of termination of financial liabilities**

*(a) When a financial asset satisfies one of the following conditions, it shall be terminated:*

- I. Termination of the contractual right to collect cash flow from the financial asset.
- II. The financial assets have been transferred, meanwhile, the transfer satisfies the requirements of financial assets termination and recognition in "Accounting Standards for Enterprises No. 23 – Financial Assets Transfer". Termination of recognition of financial assets or liabilities referred to in these Standards means that an enterprise transfers previously recognized financial assets or liabilities from its balance sheet.

*(b) Conditions for the confirmation of termination of financial liabilities*

If the current obligation of the financial liability (or part of it) has been discharged, the financial liability (or part of the financial liability) is derecognised. If the Group and the lender sign an agreement to replace the original financial liabilities with new financial liabilities, and the new financial liabilities are substantially different from the original financial liabilities, the original financial liabilities will be terminated and new financial liabilities will be confirmed.

If a substantial change is made to the contractual terms of the original financial liability (or part thereof), the original financial liability is derecognised and a new financial liability is recognised in accordance with the revised terms.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### **(5) The confirmation of termination of financial liabilities (Continued)**

###### *(b) Conditions for the confirmation of termination of financial liabilities (Continued)*

If the financial liability (or a part thereof) is derecognised, the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognised in profit or loss for the current period.

If the Group repurchases part of the financial liabilities, the book value of the financial liabilities as a whole is allocated based on the proportion of the fair value of the continuing recognition portion and the derecognised portion on the repurchase date. The difference between the book value assigned to the derecognised portion and the consideration paid (including the transferred non-cash assets or liabilities assumed) shall be included in the current profit and loss.

##### **(6) Recognition and measurement of financial assets transfer**

When the financial assets transfer occurs, the Group assesses the extent of the risks and rewards of retaining the ownership of financial assets, and handles the following situations:

- I. If almost all risks and rewards of ownership of financial assets are transferred, the financial assets are derecognised and the rights and obligations arising or retained in the transfer are separately recognized as assets or liabilities.
- II. If retain almost all the risks and rewards of ownership of financial assets, continue to confirm the financial assets.
- III. If there is neither transfer nor retention of almost all risks and rewards of ownership of financial assets (ie, other than paragraphs I and II), then according to whether or not they retain control over financial assets, the following situations are dealt with respectively:
  - i. If the financial assets are not retained, the financial assets are derecognised and the rights and obligations arising or retained in the transfer are separately recognized as assets or liabilities.
  - ii. If the control of the financial assets is retained, the relevant financial assets shall continue to be recognized according to the extent to which they continue to be involved in the transferred financial assets, and the related liabilities are recognized accordingly. The extent of continuing involvement in the transferred financial assets refers to the extent to which the Group assumes the risk or reward of changes in the value of the transferred financial assets.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### **(6) Recognition and measurement of financial assets transfer (Continued)**

When judging whether the transfer of financial assets meets the above conditions for termination of recognition of financial assets, the principle of substance over form is adopted. The Group divides the transfer of financial assets into the overall transfer of financial assets and the partial transfer of financial assets:

- (a) If the overall transfer of financial assets meets the conditions for termination confirmation, the difference between the following two amounts is included in the current profit and loss:
  - I. The book value of the transferred financial assets on the date of termination confirmation.
  - II. The consideration received for the transfer of financial assets is the sum of the amount corresponding to the termination confirmation in the cumulative amount of changes in fair value that was originally recognised directly in other comprehensive income. (The financial assets involved in the transfer are financial assets measured at fair value through other comprehensive income.)
- (b) If part of the financial assets is transferred and the transferred part as a whole meets the conditions for termination confirmation, the book value of the financial assets as a whole will be transferred between the derecognised part and the continuation confirmation part (In this case, the retained service assets shall be deemed to be part of the continuing recognition of the financial assets). They shall be apportioned according to their respective fair values on the transfer date, and the difference between the following two amounts shall be included in the current profit and loss:
  - I. The book value of the derecognised part on the date of termination confirmation.
  - II. The consideration received by the derecognised part is the sum of the amount corresponding to the derecognised part of the cumulative amount of changes in fair value previously included in other comprehensive income. (The financial assets involved in the transfer are financial assets measured at fair value through other comprehensive income.)

If the transfer of financial assets does not meet the conditions for termination confirmation, the financial assets are continually recognized and the consideration received is recognized as a financial liability.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

**(7) *The method of determining the fair value of financial assets and financial liabilities***

Financial assets or financial liabilities in an active market are determined by quoted prices in active markets; quoted prices in active markets include easy and regularly available from exchanges, dealers, brokers, industry groups, pricing agencies or regulatory agencies. A quote for an asset or liability that represents a market transaction that actually and frequently occurs on the basis of fair trade.

Financial assets initially acquired or derived or financial liabilities assumed are based on market transaction prices as the basis for determining their fair value.

There are no financial assets or financial liabilities in an active market, and valuation techniques are used to determine their fair value. At the time of valuation, the Group adopts valuation techniques that are applicable in the current circumstances and that are sufficient to support the use of data and other information, and are selected to be consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities. Enter values and use the relevant observable input values as much as possible. Unobservable input values are used where the relevant observable input values are not available or are not practicable.

**(8) *Preparation for impairment of financial assets (excluding receivables)***

- (a) Based on the expected credit losses, the Group evaluates the expected credit losses of financial assets measured at amortized cost and financial assets measured at fair value and whose changes are included in other comprehensive income, conducts impairment accounting treatment and confirms loss preparation. Expected credit loss refers to the weighted average value of credit loss of financial instruments weighted by the risk of default. Credit loss refers to the difference between the cash flow of all contracts discounted at the original real interest rate, receivable under the contract and all cash flows expected to be collected, together with the present value of all cash shortages.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### *(8) Preparation for impairment of financial assets (excluding receivables) (Continued)*

- (b) When one or more events that adversely affect the expected future cash flows of a financial asset occur, the financial asset becomes a financial asset that has suffered a credit impairment. Evidence that credit impairment has occurred in financial assets includes the following observable information:
- I. The issuer or the debtor has significant financial difficulties;
  - II. The debtor breaches the contract, such as repayment of interest or principal default or overdue;
  - III. The creditor gives the debtor no concessions in any other circumstances for economic or contractual considerations relating to the financial difficulties of the debtor;
  - IV. The debtor is likely to go bankrupt or carry out other financial restructurings;
  - V. The financial difficulties of the issuer or the debtor cause the active market of the financial asset to disappear;
  - VI. Purchase or source a financial asset at a substantial discount, which reflects the fact that credit losses have occurred.

The credit impairment of financial assets may be caused by the joint action of multiple events, and may not be caused by separately identifiable events.

- (c) For purchased or sourced financial assets that have suffered credit impairment, the cumulative change in expected credit losses over the entire duration of the initial recognition is recognized as loss provision on the balance sheet date. On each balance sheet date, the amount of the change in expected credit losses over the entire life period is recognised in profit or loss as an impairment loss or gain. Even if the expected credit loss for the entire life period determined on the balance sheet date is less than the expected credit loss reflected in the estimated cash flow at the initial recognition, the expected change in credit loss is recognized as an impairment gain.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### **(8) Preparation for impairment of financial assets (excluding receivables) (Continued)**

- (d) Except for the case of (c) the provision for loss of financial instruments, the Group assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition on each balance sheet date, and measures the loss preparation, confirms the expected credit loss and its change according to the following situations:
- I. If the credit risk of the financial instrument has increased significantly since the initial recognition, the loss provision is measured at the amount equivalent to the expected credit loss for the entire duration of the financial instrument. Regardless of whether the Group's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit and loss as an impairment loss or gain.
  - II. If the credit risk of financial instruments since the initial confirmation has not increased significantly, according to the equivalent of the financial instruments is expected in the next 12 months the amount of credit losses measuring their losses, regardless of the Group to evaluate credit loss is the basis of individual financial instruments or financial instrument combination, the resulting loss to increase or return amount, shall be used as impairment losses or gains recorded into the profits and losses.

The expected credit loss in the next 12 months refers to the expected credit loss caused by the possible default of financial instruments within the next 12 months of the balance sheet, which is part of the expected credit loss in the whole duration of the maturity. (if the expected duration of a financial instrument is less than 12 months, it is the expected duration)

In conducting the assessment, the Group considers all reasonable and valid information, including prospective information. In order to ensure a significant increase in credit risk since the initial recognition of financial instruments, i.e., to confirm the expected credit loss for the entire duration of maturity, in some cases, the assessment of credit risk on the basis of portfolio is considered as a significant increase.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 10. Financial instruments (Continued)

##### **(9) Offset of financial assets and financial liabilities**

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, if the following conditions are met, the net amount offset by each other is listed in the balance sheet:

- (a) The Group has a statutory right to offset the confirmed amount, and such legal right is currently enforceable;
- (b) The Group plans to settle the net assets or realize the financial assets and liquidate the financial liabilities at the same time.

#### 11. Accounts receivables

##### **(1) Notes receivable and Accounts receivable**

###### *I. Notes receivable*

As its short-term and low-risk of default, the group has a strong ability to pay for its contractual cash obligations in a short period of time. Therefore, the Group regards the bill receivable as a financial instrument with low credit risk. It directly assumes that credit risk has not increased significantly since the initial confirmation. Considering the zero historical default rate, the Group determines bad debt provision for the notes receivable is zero..

###### *II. Accounts receivable*

The Group's allowance for bad debts is based on the amount of anticipated credit losses during the entire life of the group's accounts receivable.

The Group is unable to obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at a single instrument level, and it is feasible to assess whether a significant increase in credit risk is achieved on the basis of a portfolio. Therefore, on the basis of the actual loss rate of accounts receivable in previous years, the judgment of future recovery risk and the analysis of credit risk characteristics, the Group determines the expected credit loss rate and provision for bad debts.

<b>Portfolio of credit risk</b>	<b>Expected loss reserve rate (%)</b>
Aging portfolio	Details in estimated loss rate of age portfolio
Accounts receivables with collateral guarantee	The balance after deducting the recoverable value of the collateral from the original value as a risk exposure to predict credit losses

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 11. Accounts receivables (Continued)

(1) *Notes receivable and Accounts receivable (Continued)*

ii. *Accounts receivable (Continued)*

- (a) Expected credit losses of accounts receivable formed by domestic business which based on ageing credit risk characteristics

<b>Ageing</b>	<b>Estimated loss rate of receivables (%)</b>
Within 1 year	1-15
1-2 years	50
2-3 years	100
Over 3 years	100

- (b) Expected credit losses of accounts receivable formed by international business which based on ageing credit risk characteristics.

<b>Ageing</b>	<b>Estimated loss rate of receivables (%)</b>
Within 1 year	5
1-3 years	10
3-4years	30
4-5 years	60
Over 5 years	100

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 11. Accounts receivables (Continued)

##### (2) *Other receivable*

The Group measures other receivables loss provision in accordance with the following circumstances: ①If the credit risk has not increased significantly since the initial confirmation, the Group shall measure the loss preparation according to the amount of anticipated credit losses in the next 12 months. ②Financial assets whose credit risk has increased significantly since the initial confirmation, the Group measures the loss provision in the amount equivalent to the expected credit loss of the financial instrument during its entire life cycle. ③When purchasing or originating financial assets that have suffered credit impairment, the Group shall measure the loss provision in the amount equivalent to the expected credit loss during the whole life period.

For other receivables, the Group can not obtain sufficient evidence of significant increase in credit risk at a reasonable cost at a single instrument level, and it is feasible to assess whether significant increase in credit risk is achieved on the basis of portfolio. Therefore, the Group receives other receivables according to the common risk characteristics of financial instrument type, credit risk rating, initial confirmation date and residual contract duration. Line grouping and portfolio-based assessment of whether credit risk increases significantly.

- (a) The expected credit losses are measured based on the portfolio. The other receivables formed in the domestic and international business of the Group are calculated and deducted according to the corresponding age credit risk portfolio according to the corresponding age credit risk characteristics.
- (b) For non-operational low-risk businesses, other receivables are deducted in proportion to 1% of the balance.
- (c) The risk exposure estimates credit loss is the balance of the original value of accounts receivable with pledge guarantee deducting its recoverable value.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 12. Inventories

**(1) Classification of inventories**

Inventories are products that our company holds for sale in daily activities, materials consumed in the production process, materials in the process of providing services, in the production process. The inventories of the Group include raw material, packing materials, low-valued consumables, work-in-process, finished goods, and projects costs etc.

**(2) Method of valuation of inventory**

The purchase and emits of the stock are priced at the planned cost. Setting the “material cost difference” course and accounting balance of actual cost and plan cost, the final will be issued and balances the cost of inventory adjustment for the actual cost.

**(3) the basis for determining the net realizable value of inventory and the accrual method for the stock price drop preparation**

The estimated sales price of the inventories, such as finished products, inventory commodities and materials directly used for sale is deducted from the estimated sales cost and the amount after the relevant taxes and fees, and the net realizable value is determined. The net realizable value of inventory which require processes is determined by the estimated selling price of finished products deducting the estimated cost, estimated sales cost and related taxes and fees after completion. To execute sales contracts or labour contracts, the net realizable value is measured by the contract price. If the quantity of stock held is more than that of the sales contract, the net realizable value of the excess part will be measured by the general selling price.

Inventories provision accrues individually at the end of term. If a large stock has a lower unit price, provision for decline in inventory is prepared in accordance with the inventory category. If the inventory is related to a series of products that are produced which sold in the same area and have the same or similar end uses or purposes and it is difficult to separate the items from other items, the provision for decline in inventory will be combined.

If the reduction factors of inventory value have disappeared in the past, the reduced amount shall be recovered. Meanwhile, reserving the original provision for inventory, reversal of the amount count in the current profits and losses

**(4) Inventory system**

Adopting the perpetual inventory system.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 12. Inventories (Continued)

**(5) Amortization method of low priced and easily worn articles and packaging**

- I. low priced and easily worn articles adopt once writing-off method.
- II. Packaging adopt once writing-off method.

#### 13. Contract assets and contract liabilities

The right of the Group to receive consideration for the transfer of goods to its customers, which depends on factors other than the passage of time, is recognized as a contractual asset. Part of the obligation to transfer goods to the customer when the customer has received or receivables consideration is recognized as contract liabilities.

The Group evaluates the anticipated credit loss of contract assets and measures its loss preparation based on the amount equivalent to the anticipated credit loss during the whole life period. Based on the actual loss rate of contract assets in previous years, the judgment of future recovery risk and the analysis of credit risk characteristics, the expected loss rate is determined and the provision for impairment of contract assets is calculated accordingly.

#### 14. Long-term receivables

the Group's accounts receivable arising from finance leases and accounts receivable arising from deferred instalment collections and sales of goods and services that are of a substantially financing nature are recognized as long-term receivables. At the same time, the unrealized financing income is recognized according to the difference between the fair value of the contract receivable or the agreement price and the contract or agreement amount.

Provision for impairment of long-term receivables: taking the balance of original value after deducting unrealized financing income as the basis of deduction.

- (1) Within the normal repayment period, the balance after deducting the unrealized financing income according to the contract amount shall be deducted according to 1%.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 14. Long-term receivables (Continued)

- (2) The proportion of impairment shall be calculated according to the expected credit loss of the credit risk portfolio of overdue account age:

Overdue age	Estimated loss rate of receivables (%)
Within 1 year	5
1-3 years	10
3-4years	30
4-5 years	60
Over 5 years	100

#### 15. Assets classified as held for sale

- (1) Confirmation criteria for assets classified as held for sale

The Group determines non-current assets or disposal teams that simultaneously meet the following requirements as assets classified as held for sale:

- (a) In accordance with the practice of selling such assets or disposal teams in similar transactions, they can be sold immediately in the current circumstances.
- (b) The sale is very likely occurring, that is, the Group has made a resolution on a sale plan, has been approved by the regulatory authorities (if applicable), and has obtained a firm commitment to purchase which the sale is expected to be completed within one year.

Purchase commitment is determined which means a legally binding purchase agreement signed by the Group with other parties. The agreement contains important terms such as transaction price, time and severe penalties for breach of contract that major adjustments or revocations to agreements is unlikely to happen.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 15. Assets classified as held for sale (Continued)

**(2) Accounting method for assets classified as held for sale**

Where the Group holds non-current assets or disposal teams for sale without depreciation or amortization and their book value is higher than the net amount of fair value minus the selling expenses, the book value shall be written down to the net amount after the fair value minus the selling expenses. The amount written down shall be recognized as the loss of impairment of assets and shall be recorded in the profits and losses of the current period. At the same time, provision for impairment of assets classified as held for sale is made.

For the non-current assets or disposal groups are classified as holding for sale on acquisition days, the amount of initial measurement is the lower between the initial measurement amount when these are not classified as holding for sale and fair value minus the net sale cost.

The above principles apply to all non-current assets, but not investment real estate which applying fair value model for follow-up measurement, biological assets Measured by net value minus sale cost, assets formed by employees' compensation, deferred tax assets, financial assets standardized by Financial Instruments-Related Accounting Standards, rights arising from insurance contracts regulated by relevant accounting standards for insurance contracts.

#### 16. Long-term equity investment

Long-term equity investments of the Group mainly include investment on subsidiaries, associates, and joint ventures.

The Group determines that a common control exists when all parties or groups of parties control that arrangement unilaterally and decisions relating to the basis operating activity of the entity require the unanimous consent of the parties sharing the control.

The Group holds, directly or through subsidiaries, more than 20 percent but less than 50% of the voting power of the investee, it is assumed that the Group has significant influence. When the Group holds less than 20% of the voting power of the investee, significant influence shall be considered under actual fact and circumstances such as there is a delegate of the investor in the investee's the Board of Directors and other similar power bodies, the investor gets involved in investee's financial and operating policies decision-making process, there are significant transactions occurred between the investor and the investee, the investor assigns management personnel in the investee and the investor provides key technical support to the investee.

When investee is controlled by the Group, it is considered as the Group's subsidiary. The investment cost for long-term equity investment acquired through business combination under common control is the carrying value of the share of equity at the combination date in the acquired company. The investment cost is recorded as zero when the carrying amount of the share of equity at the combination date in the acquired company is in deficit.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 16. Long-term equity investment (Continued)

For shareholding which obtained by different transactions by steps and become business combination finally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, according to proportion of fair value of net assets of acquire after the combination in the consolidated financial statements and accounted as the initial investment cost of long-term investment. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination not under the common control, cost of combination will be treated as the initial investment cost.

For the equity investment to the investee entity not under the common control obtained by steps through multiple transactions, and forming enterprise combination ultimately, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, Initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the invested company when it directly disposes related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for the current period on the date of combination.

Apart from the long-term equity investments acquired through business combination mentioned above, the cost of investment for the long-term equity investments acquired by cash payment is the amount of cash paid. For long-term equity investment acquired by issuing equity instruments, the cost of investment is the fair value of the equity instrument issued. For long-term equity investment injected to the Group by the investor, the initial cost is the consideration as specified in the relevant contract or agreement.

Investments in subsidiaries are accounted for by the Group using cost method and equity method is used for investment in joint ventures and associates.

Additional investments to long-term equity investments subsequently accounted on the cost method are measured to increase its carrying amount on the fair value of the additional cost and other transaction related expenses occurred. Dividends declared or profit distributed by the investee shall be recognized as investment income in the current period.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 16. Long-term equity investment (Continued)

For long term equity investment adopting equity method as the subsequent measurement, the book value of the long-term equity investment should be adjusted with an increase or decrease according to the change of the owner' equity of the investee entity. When recognizing the entitle portion in the net profit or loss in the investee company, the basis is the fair value of each identifiable assets of the investee entity obtained in the investment, according to the accounting policies and accounting period of the Group, and netted with the portion of profit or loss of the internal transactions entitled in the investee enterprise based on the calculation according to the shareholding percentage to be recognized after the adjustment to the net profit of the investee entity.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognised as investment income for the period. For long-term investments accounted for under the equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Group are recycled to investment income for the period on disposal.

In the situation where the Group does not joint control or does not has significant influence over the investee company due to the reasons such as disposing a portion of the equity investment, the rest share equity after the disposal is classified as the available-for-sale financial asset. The difference between the fair value at the date when the Group lost the joint control or the impact of significant influence and the book value is recognized into the current profit or loss. The other comprehensive income of the previous equity investment recognized under the equity method is treated according to the accounting treatment same to the basis adopted by the investee company to directly dispose the relative assets or liabilities when terminating the adoption of equity method.

For loss of control in the invested company due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or imposes significant influence to the invested company after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for sale financial assets, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment income for such period.

For each transaction not belonged to a deal of package by steps through multiple disposals of equity investment to lose the right of control, the Group makes accounting treatment separately to each transaction. If belonged to a deal of package, the Group treats each transaction as one transaction to dispose a subsidiary and lose the right of control to make accounting treatment. Nonetheless, the difference between the consideration of disposal and the book value of the respective long-term equity investment disposed for each transaction before losing the right of control is recognized into other comprehensive income. When reaching the loss of the right of control, the amount is transferred into the current period of profit or loss of the period losing the right of control.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 17. Investment properties

The investment properties of the Group include land use rights leased out, land use rights held for sale after appreciation and leased buildings. Investment properties of the Group are subsequently measured using cost model.

Investment properties are depreciated or amortised on straight line method. The estimated useful life, residual percentage, and annual depreciation (amortization) rates are in consistent with the ones adopted for fixed assets.

#### 18. Fixed assets

##### **(1) Conditions for confirmation of fixed assets**

Fixed assets are tangible assets, having useful life over one accounting year, which are held to produce goods and/or the rendering of services, leasing to others, or for operating purposes. Fixed assets are confirmed when the following conditions are met at the same time:

- I. Fixed asset is recognised when it is probable that future economic benefits associated with the item will flow to the Group;
- II. The cost of the item can be measured reliably.

##### **(2) Initial measurement of fixed assets**

The initial measurement of the group of fixed assets is based on costs.

- a. Purchased fixed assets cost including purchase price, import tariffs and other related taxes and fees, as well as the fixed asset for its intended use before the other expenses are directly attributable to the asset.
- b. The cost of building a fixed asset by itself is made up of the necessary expenditure until the construction of the assets has reached the desired state of use.
- c. The fixed assets invested by investors shall be accounted for the value stipulated in the investment contract or agreement. However, if the value of the contract or agreement is not fair, count the fair value.
- d. The cost of fixed assets is based on the present value of purchase price when the purchase price of fixed assets exceeds the normal credit condition which substantially has the nature of financing. The difference between the actual payment and the present value of the purchase price, in addition to the capitalization, is included in the current profit and loss in the credit period.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 18. Fixed assets (Continued)

##### (3) Follow-up measurement and disposal of fixed assets

##### a. Depreciation of fixed assets

Provision of fixed asset depreciation is determined by its entry value after deducting the estimated net residual value in expected life. For fixed assets that have been prepared for impairment, the amount of depreciation of it is determined by book value after deducting the impairment based on useful life. When the fixed assets whose accumulated depreciation are enough, no longer depreciate it which continue being used.

The fixed assets formed by special reserve expenditures shall be reduced by the cost of forming fixed assets and the accumulated depreciation of the same amount shall be confirmed. The fixed assets shall not be further depreciated in the future.

Based on the nature and usage of fixed assets, the Group determines the service life of the fixed assets and the estimated net residual value. At the end of the year, the service life of the fixed assets, the estimated net residual value and the method of depreciation shall be reviewed, such as the corresponding adjustment to the original estimates.

Depreciation method, useful life, estimated residual value, depreciation rate of the fixed assets under the classification of the Group are as the following:

Classification	Depreciation method	Useful life (year)	The rate of estimated residual value (%)	Annual depreciation rate (%)
Land	–	Long-term		
Building	straight-line method	10–30	5–10	3.00–9.50
Machinery	straight-line method	10–14	5–10	6.40–9.50
Transportation equipment	straight-line method	8–12	5–10	7.50–11.90
Electric & office equipment	straight-line method	5–8	5–10	11.30–19.00
Others	straight-line method	5–14	5–10	6.40–19.00

##### b. Subsequent measurements of fixed assets

The subsequent expenditures related to the fixed assets, if satisfies the criteria of capitalization, recognize to the cost of fixed assets. if not, charges to profit or loss when it occurs.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 18. Fixed assets (Continued)

##### **(3) Follow-up measurement and disposal of fixed assets (Continued)**

##### *c. Disposal of fixed assets*

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, discarded, damaged or destroyed, the Group shall deduct the carrying value of it as well as the relevant taxes from the disposal income, and include the residual amount in the current profits or losses.

#### 19. Construction in progress

##### **(1) Initial measurement of construction in process**

The actual construction cost of the construction in progress is determined by the actual expenses incurred before the construction of the asset reaches the intended usable condition, including the cost of engineering materials, labor costs and relevant taxes payable. Capitalized borrowing costs and indirect costs that should be apportioned.

##### **(2) The criteria for construction-in-progress to convert into fixed asset**

The total expenditure incurred before the construction project is constructed to reach the intended usable condition shall be recorded as the value of the fixed assets. The construction of fixed assets under construction has reached the intended use of the state, but has not yet completed the final accounts, since the scheduled use of the date of use, according to the project budget, cost or actual project costs, according to the estimated value into fixed Assets and depreciation of fixed assets in accordance with the depreciation policy of the Group's fixed assets. After the completion of the final accounts, the original estimated value shall be adjusted according to the actual cost, but the original depreciation amount shall not be adjusted.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 20. Borrowing cost

**(1) Recognition principle of capitalization of borrowing costs**

The borrowing costs, the Group can directly attributable to the acquisition and construction or production of assets eligible for capitalization, in the case of eligible for capitalization start capitalization, included in the relevant asset costs; Other borrowing costs shall be recognized as expenses at the time of occurrence and shall be included in the current profits and losses.

Assets that are eligible for capitalization are assets that require a long period of time to purchase or produce activities to achieve fixed assets, investment real estate and inventory that are intended to be available or sold.

Borrowing costs begin to capitalize when the following conditions are met:

- I. Assets expenditure has occurred, including expenditure incurred in the form of cash, transfer of non-cash assets or interest-bearing debt for the acquisition or construction of assets eligible for capitalization.
- II. Borrowing costs have already occurred.
- III. The purchase and construction or production activities necessary for the asset to reach the intended use or saleable status.

**(2) Capitalization period of borrowing costs**

During the period of capitalization, the period during which the borrowing costs are suspended from capitalization is not included during the period from the point of time when the borrowing costs are capitalized to the point where the capitalization is stopped.

The borrowing costs shall cease to be capitalized when the assets acquired or produced meet the conditions for capitalization are ready for use or sold.

When part of the assets purchased or produced in accordance with the capitalization conditions are completed and can be used alone, the part of the asset borrowing costs to stop capitalization.

The parts of the assets purchased or produced are completed separately but must wait until the whole is completed or can be sold abroad. The capitalization of the borrowing costs shall be stopped when the asset is completed as a whole.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 20. Borrowing cost (Continued)

**(3) *Suspension of capitalization period***

If the assets that meet the capitalization conditions are interrupted abnormally during the construction or production process and the interruption time lasts for more than 3 months, the borrowing costs shall be suspended; the borrowing costs continue to be capitalized if the acquisition or production of assets eligible for capitalization to meet the required usable status or the availability of sales. The borrowing costs incurred during the interruption are recognized as profit or loss for the current period and the borrowing costs continue to be capitalized until the asset is purchased or the activity is resumed.

**(4) *Calculation for capitalization of borrowing costs***

Special loan interest charges (excluding unused borrowing money deposited in the bank interest income, or for a temporary investment return on investment) and its ancillary expenses and construction or production of assets eligible for capitalization, before to the expected conditions for use or sale shall be capitalized.

Based on the weighted average of the asset expenditures that exceed the special borrowing portion, the accumulative asset expenditure is calculated to determine the amount of interest that the general borrowing should be capitalized. The capitalization rate is determined based on the average borrowing weighted average interest rate.

Where there is a discount or premium in the loan, the interest amount shall be adjusted in accordance with the real interest rate method to determine the discount or premium amount that shall be amortized during each accounting period.

#### 21. Intangible assets and development expenditure

An intangible asset is an identifiable non-monetary asset without physical substance. Including land use right, software, other intangible assets.

**(1) *Initial measurement of intangible assets***

The cost of outsourcing intangible assets, including purchase price, related taxes and other expenses directly attributable to the asset to the intended use. The purchase price of intangible assets exceeds the normal credit terms deferred payment, in essence, the nature of the financing, the cost of intangible assets to determine the value of the purchase price.

Debt restructuring to the debtor to owe, intangible assets, on the basis of the fair value of the intangible assets to determine its costs, and the book value of the debt restructuring and the to a debt is the difference between the fair value of intangible assets, included in the current profits and losses.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 21. Intangible assets and development expenditure (Continued)

##### (1) *Initial measurement of intangible assets (Continued)*

On the premise that the exchange of non-monetary assets possesses commercial essence and the fair value of assets exchanged or converted can be reliably measured, the intangible assets exchanged for non-monetary assets shall determine their entry value on the basis of the fair value of assets exchanged, unless there is conclusive evidence that the fair value of the converted assets is more reliable. Exchange of non-monetary assets that do not satisfy the preconditions mentioned above shall take the book value of the assets exchanged and the relevant taxes and fees payable as the cost of converting into intangible assets, and shall not recognize profits and losses.

The intangible assets acquired under the same control are determined by the book value of the merged party. The intangible assets acquired by enterprises under the control of non-identical control shall determine their accounting value at fair value.

Internal self-developed intangible assets, and its cost includes: the development of the intangible assets, consumption of materials, labour costs, registration fees, used in the development process of the amortization of patents and other concessions and for capitalization of interest costs, as well as to make the intangible asset to the expected purpose of the other direct costs.

##### (2) *The subsequent measurement of intangible assets*

The Group analyses and determines its service life when acquiring intangible assets, which is divided into intangible assets with limited service life and uncertain service life.

##### a. *Intangible assets with limited service life*

For intangible assets with limited service life, they are amortized by straight-line method for the economic benefits of enterprises. The life expectancy of the intangible assets with limited life span is predicted as follows:

Project	Expect service life	Reason
Land-use life	30–50 years	Benefit years
Software	2–10 years	Benefit years
Patent right	5–10 years	Benefit years

At the end of each term, the service life and amortization method of the intangible assets with limited service life will be rechecked. If there are differences with the original estimates, corresponding adjustments will be made.

After reviewing, the life and amortization methods of intangible assets are not different from previous estimates.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 21. Intangible assets and development expenditure (Continued)

##### **(2) *The subsequent measurement of intangible assets (Continued)***

##### *b. Intangible assets with uncertain service life*

It is impossible to foresee that intangible assets will bring economic benefits to enterprises, which are regarded as intangible assets with uncertain service life. The intangible assets with uncertain service life are as follows:

The right of use of the trademark and the license of production have uncertain service life. The evaluation of the time limit for the right to use trademark and the right of production is based on the trend of market and competitive environment, the cycle of product use and the long-term development strategy of management. These bases generally show that the use of trademark and production license will provide a long-term net cash flow for the group within a limited period of time. The service life of it is uncertain because it cannot be foreseen for the period of economic benefits for the group.

For intangible assets with uncertain service life, they will not be amortized during the holding period, and the life of intangible assets will be reviewed at the end of each term. If the final review remains uncertain, the impairment test will continue during each accounting period.

After reviewing, the service life of this kind of intangible assets is still uncertain.

##### **(3) *Division of the research and development stages of internal research in the Group and the specific standards for development projects***

The stage of research: a stage of original planning, research, and research for the acquisition and understanding of new scientific or technical knowledge.

Development stage: before the commercial production or use, the research results or other knowledge will be applied to a plan or design to produce new or substantial improvements in materials, devices, products and other activities.

The expenditure of the research stage of the internal research and development project is included in the current profit and loss at the time of occurrence.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 21. Intangible assets and development expenditure (Continued)

**(4) Specific standard for capitalization of expenditure in the development stage**

Internal research and development projects in the development phase of the expenditure, while meeting the following conditions identified as intangible assets:

- a. Complete the intangible asset so that it can be used or sold in technical feasibility.
- b. The intention to complete the intangible asset and to use or sell it.
- c. Intangible assets to generate economic benefits, including the ability to prove the existence of the products using the intangible assets market or the market of intangible assets, intangible assets will be used internally, to prove its usefulness.
- d. Having sufficient technical, financial resources and other resource support to complete the development of the intangible asset and have the ability to use or sell the intangible asset.
- e. Expenditures attributable to the development stage of the intangible asset can be reliably measured.

Expenditures incurred in the development stage that do not meet the above conditions shall be included in the current profit and loss in the event of occurrence. The development expenditure which has been included in the profit and loss has not been reconfirmed as an asset in the future. Expenditures in the capitalized development phase are shown on the balance sheet as development expenditures and are converted into intangible assets from the date of the project's intended use.

#### 22. Impairment on long-term assets

On the balance sheet date, the Group determines whether there may be a sign of a reduction in long-term assets. If there are signs of impairment in long-term assets, the recoverable amount is estimated on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, then determine the recoverable amount of the asset group on the basis of the asset group belonging to the asset.

The estimation of assets recoverable amount is the larger amount between the fair value deducting net cost when disposal and the expected value of future cash flow of assets.

The measurement results show that when the long-term recoverable amount assets is lower than its book value, the book value of long-term assets is reduced to its recoverable amount. The reduced amount is recognized as impairment loss recognised, at the same time, make the corresponding assets depreciation preparation. As soon as the loss of assets is confirmed, it shall not be returned during the subsequent accounting period.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 22. Impairment on long-term assets (Continued)

After the asset impairment loss is confirmed, the depreciation or amortization expenses of the impairment assets will be adjusted accordingly in the future period so that the assets' book value of adjusted assets will be allocated in the remaining useful life (deducting the estimated net residual value).

No matter whether there is any sign of impairment or not, the impairment test is carried out every year because of the goodwill and the intangible assets of the enterprise merger.

In the devaluation test of goodwill, the book value of goodwill would be amortised to asset groups or portfolio groups benefiting from the synergy effect of an enterprise merger as expected. When taking an impairment test on the relevant asset group containing goodwill or combination of group assets, such as goodwill and the related asset group or combination of asset groups signs of impairment, first calculate the recoverable amount but not test the impairment which does not contain an asset group or combination of asset groups. Then, compare it with the related book value and confirm the impairment the corresponding loss. Next, testing impairment of goodwill includes asset group or combination of asset groups and comparing book value of the related asset group or combination of asset groups (book value includes the share of goodwill) with the recoverable amount. If the recoverable amount of asset group or combination of asset groups is lower than the book value, confirm the impairment loss of goodwill.

#### 23. Long-term prepayments

##### (1) *Amortization method*

Long-term prepaid expenses of the Group refer to expenses that already been spent and the benefit period is one year or more (excluding one year). Long-term deferred expenses are amortized using the straight-line method in its useful life.

##### *Amortization years*

<b>Category</b>	<b>Amortization method</b>	<b>Notes</b>
Maintenance costs	2-10 years	
Mould amortization	3-10 years	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 24. Employee benefits

Remuneration is that the various forms of remuneration or compensation provided by the Group for the service provided by the staff or the dissolution of labour relations. Employee's benefits include short-term remuneration, post-employment benefits, layoff benefits and other long-term benefits.

**(1) Short-term remuneration**

Short-term remuneration includes salary, bonus, allowance, welfare, and the social security include medical, injury, and birth insurance, housing fund, labour union, staff education, short-period paid leave, short-term profit sharing plan, non-monetary benefit, and other short-term employees benefit. It shall be recognised as liabilities during the accounting period when the employee renders services to the Group and allocated to related cost of assets and current period profit or loss based on different beneficiaries.

**(2) Post-employment benefits**

Post-employment benefits refer to the compensation and benefits provided, after employees' retirement and termination of employment, by the Group in order to obtain services from employees, except for the short-term compensation and employee benefits. Post-employment benefits including the endowment insurance, pension, unemployment insurance, retirement benefits and other post-employment benefits, and classified into defined contribution plan and defined benefit plan according to the risks and liabilities assumed by the Group. As for defined contribution plan under which the group consumed obligation of making payment to independent funds, in order to exchange for staff services to be provide during the accounting period, shall be recognized as liabilities, and included into the profit or loss or related assets cost of the current period of the beneficiary.

Defined contribution plan of the Group refers to the basic endowment insurance, unemployment insurance, and enterprise annuity paid for the employees according to relevant regulation by local governments. During the accounting period when employees render services to the Group, amount payable calculated by the base and ratio in conformity with local regulation is recognized as liability and accounted for profit and loss or related cost of assets.

**(3) Termination benefits**

Termination benefits refer to the compensation paid when the Group terminates the employment relationship with employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy. For the situation where although the employee does not relieve the labour service contract with the Group, the employee will no longer provide services to the Group in the future and cannot bring economic benefits to the Group, the Group commits to provide the economic compensation with the nature of termination benefits, for instance the situation of "early retirement". In such a situation, before the formal retirement date of the employee, the Group adopts the treatment according to the treatment to the termination benefits. While after the formal retirement date, the Group adopts the treatment according to the treatment of the welfare after the termination of service.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 24. Employee benefits (Continued)

##### **(3) Termination benefits (Continued)**

Where the Group provides termination benefits to employees, the Group recognizes the liabilities of employee benefits payable generated from the termination benefits at the earlier date of the following two dates: 1) when the Group cannot reverse the termination benefits due to the plan of cancelling the labour relationship or the termination benefits provided by the advice of reducing staff; and 2) the Group recognizes the cost or expense relative to the payment of termination benefits of restructuring into the current profit or loss.

For termination plan of which the termination benefits which are expected not to be entirely paid after the twelve months of the end of the reporting period and the substantial termination work is completed within one year but the term to pay the compensation payment exceeds one year, the Group adopts the appropriate discounted rate and adopts the discounted amount to measure the amount of termination welfare that should be recognized into the current profit or loss.

Early retirement benefits refer to the benefit offered to the employees who voluntarily accept Group's arrangement for early retirement. The Group pays the salary and social security for the employee who voluntarily retires after approval even though the employee has not yet reached the retiring age stated in government regulation. When qualified for early retirement benefit, proposed payment on early retirement benefit from the date when rendering of service terminated to date when the employee regularly retired is discounted and then recognized as liability and accounted into profit or loss.

##### **(4) Other long-term employment benefit**

Other long-term employment benefit refers to all employee benefit except for short-term benefit, post-employment benefit, and termination benefit, includes long-term paid absence, long-term disability benefit and long-term profit-sharing plan etc. Relevant accounting treatments for defined contribution plan are adopted for other long-term employment benefit quailed for defined contribution plan. When the qualification is satisfied, net assets and liabilities of other long-term employment benefits are recognized and measured, accordingly. At the end of reporting period, employee benefits from other long-term employment benefits are recognized into the following components: cost of service, net interests on the net assets liabilities of other long-term employment benefit, changes from revaluation of net assets liabilities of other long-term employment benefit. The total net amount will be recognized as profit and loss or costs to related assets for the current year.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 25. Expected liabilities

**(1) *Criteria for expected liabilities***

The Group shall recognize expected liabilities if the contingent matters meet the following requirements:

- I. The assumed responsibilities are current liability.
- II. The fulfilment of obligations will cause the outflow of economic benefit from the Group.
- III. The amount of liabilities can be measured reliably.

**(2) *Measurement method of expected liabilities***

The initial measure of expected liabilities is the best estimate of the expenditure required for the performance of the current obligations.

When determining the best estimates, the Group consider the risks, uncertainties and time value of the currency. If the time value of money has a great influence, the Group determine the best estimate by discounting the related future cash outflows.

The best estimates are measured in different situation as follow:

If there is a continuous range (or interval) of the required expenditure and the probability of the occurrence of all the results in the range is the same, the best estimate is determined according to the median value of the range, which is the average of the upper and lower limit.

There is a necessary expense that does not exist a continuous range (or range) or exist a continuous range with a range of different possibility of a variety of results. If the contingencies of individual projects involving, the best estimate is most likely to occur in accordance with the amount determined. If contingencies involving a number of projects, the best estimate according to various possible results and related probability calculation.

The total or part of the expected expenses of the Group is expected to be compensated by the third party. When the amount of the compensation is determined, it is basically determined and it can be independently recognized as assets. The amount of compensation confirmed will not exceed the book value of the estimated liabilities.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 26. Revenue

##### **(1) Recognition and measurement of revenue**

###### *(a) Contract confirmation principle*

When the contract between the Group and the customer meets the following conditions at the same time, the Group recognizes the income when the customer obtains control of the relevant commodity:

- I. The parties to the contract have approved the contract and promised to fulfill their respective obligations;
- II. The contract clarifies the rights and obligations of the parties to the contract in relation to the goods transferred or the provision of services;
- III. The contract has clear payment terms related to the goods transferred or services provided;
- VI. The contract has commercial substance, that is, fulfilling the contract will change the risk, time distribution or amount of future cash flow of the enterprise;
- V. The consideration that the enterprise has the right to obtain due to the transfer of goods or services to customers is likely to be recovered.

###### *(b) Principle of confirmation of performance obligations*

On the contract start date, the contract is evaluated, each individual performance obligation included in the contract is identified, and each individual performance obligation is fulfilled within a certain period of time, or is performed at a certain point in time, and then the revenue is recognized separately upon performance of each individual performance obligation.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 26. Revenue (Continued)

##### (1) *Recognition and measurement of revenue (Continued)*

##### (b) *Principle of confirmation of performance obligations (Continued)*

If one of the following conditions is met, it is a performance obligation to be performed within a certain period of time; otherwise, it is a performance obligation at a certain point in time:

- I. The customer acquires and consumes the economic benefits brought by the performance of the Group while fulfilling the contract.
- II. Customers can control the products under construction during the Group's performance.
- III. The goods produced during the performance of the enterprise have irreplaceable use, and the Group has the right to collect funds for the part of the performance that has been completed so far throughout the contract period.

The Group further divides the performance obligations in the customer contract. For the performance obligation fulfilled at a certain point in time, the Group recognizes the income when the customer obtains the control right of the relevant commodity; for the performance obligation fulfilled during a certain period of time, the Group is at that time. Revenue is recognized in accordance with the progress of the performance, and the output method (or input method) is used to determine the appropriate performance schedule based on the nature of the goods and services. The output method is based on the value of the goods transferred to the customer to determine the performance of the customer (the input method is based on the Group's commitment to fulfill the performance obligations), when the performance of the contract can not be reasonably determined, where the Group is expected to be reimbursed for the cost incurred, the revenue shall be confirmed according to the cost amount incurred until the performance schedule can be reasonably determined.

##### (c) *Specific principles of revenue recognition*

The Group measures income according to the transaction price allocated to each individual performance obligation.

The group determines the transaction price based on the terms of the contract and in combination with past practices. When determining the transaction price, consider the impact of variable consideration, major financing components in the contract, non-cash consideration, and customer consideration.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 26. Revenue (Continued)

##### (1) *Recognition and measurement of revenue (Continued)*

##### (d) *Confirmation of the transaction price of individual performance obligations*

Where the contract includes two or more performance obligations, the Group shall distribute the transaction price to each individual performance obligation on the contract start date in accordance with the relative proportion of the individual selling prices of the commodities promised by each individual performance obligation. For contract discounts, the Group is prorated in proportion to each individual performance obligation.

##### (e) *Confirmation of revenue*

The enterprise shall fulfill its performance obligations in the contract, that is, the revenue is recognized when the customer obtains control of the relevant commodity. Consider the following signs when deciding whether a customer has acquired control of a product:

- I. The enterprise has the current right to collect the goods, that is, the customer has a current payment obligation for the goods.
- II. The enterprise has transferred the legal title of the goods to the customer, ie the customer has the legal title to the goods.
- III. The enterprise has transferred the goods in kind to the customer, that is, the customer has possessed the goods in kind.
- IV. The enterprise has transferred the main risks and rewards of ownership of the goods to the customer, that is, the customer has obtained the main risks and rewards of ownership of the goods.
- V. The customer has accepted the item.
- VI. Other indications that the customer has obtained control of the commodity.

##### (2) *The specific accounting policies related to the main activities of the Group and its subsidiaries to obtain income are described as follows:*

##### i. *Domestic product sales revenue*

Domestic sales revenue mainly refers to the income from sales of products by the Group. According to the contract, the Group obtained the relevant evidence for the control of the product, and the Group completed the contract performance obligation to confirm the income.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 26. Revenue (Continued)

(2) *The specific accounting policies related to the main activities of the Group and its subsidiaries to obtain income are described as follows: (Continued)*

II. *Foreign trade income*

Export income mainly refers to the income from engaging in foreign trade. After the Group's goods are declared offshore, the Group will confirm the income based on the evidence obtained by the other party to obtain control of the product.

III. *Financial services income*

The income from financial services is mainly the interest income and commission and commission income obtained by YTO Group Finance Co., Ltd., a subsidiary of the Group.

Interest income refers to the income provided to the other party but does not constitute an equity investment, or the income obtained by the other party occupying the Group's funds, including the deposit of inter-bank periodic interest income, loan interest income, discount interest income and so on. the Group recognizes the income based on the time and actual interest rate of the right to use the transferred funds.

Fees and commission income are charged fees and commissions by providing various services to customers. The fees and commissions collected through the provision of services during a certain period of time are recognized on average during the corresponding period, and other fees and commissions are recognized at the completion of the relevant transactions.

IV. *Other*

the Group recognizes revenue in accordance with the relevant provisions of the "Accounting Standards for Business Enterprises" and the actual business.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 27. Government subsidy

##### **(1) Classification of government subsidy**

Government subsidy is the monetary assets and non-monetary assets obtained by the Group from the government free of charge. According to the relevant government documents provided by the subsidy object, the government subsidies are divided into asset-related government subsidies and income-related government subsidies.

As for government subsidies that have not been explicitly subsidized in government documents, the Group classifies government subsidies as grants pertinent to assets and grants pertinent to incomes, relevant judgement is stated which can refer to Note VI. Notes to the items of the consolidated financial statement Deferred revenue & Non-operating income.

Funds related to assets are government grants obtained by the Group for the acquisition, construction or otherwise formation of long-term assets. Revenue-related government grants refer to government grants other than government-related government subsidies.

##### **(2) Confirmation of government subsidy**

If there is evidence at the end of the period that the Group can meet the relevant conditions stipulated in the financial support policy and is expected to receive financial support funds, the government subsidy shall be recognized according to the amount receivable. In addition, government grants are recognized when they are actually received.

If the government subsidy is monetary assets, it shall be measured according to the amount received or receivable. If the government subsidy is a non-monetary asset, it shall be measured at fair value. If the fair value cannot be obtained reliably, it shall be measured according to the nominal amount (RMB1.00). Government grants measured in nominal terms are directly included in the current profits and losses.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 27. Government subsidy (Continued)

**(3) Accounting treatment method**

The government subsidies related to the assets are recognized as deferred income and are included in the expenses or losses according to the period of use of the assets used or purchased.

Revenue related government subsidies are used to compensate the relevant expenses or losses in the subsequent period of the enterprise and are recognized as deferred income and are included in the expenses or losses during the period when the relevant expenses are recognized. Used to compensate for the relevant costs or losses incurred by the enterprise and are directly included in the current expenses or losses.

Government subsidies related to the daily activities of the business are included in other benefits. Government subsidies that are not related to daily activities in the business are included in the non-operating income.

Receiving government subsidies related to preferential interest rates for preferential loans to reduce related borrowing costs. To obtain the policy preferential interest rate loan provided by the loan bank, the amount of the loan received is taken as the entry value of the loan. The related borrowing cost is calculated according to the loan principal and the policy preferential interest rate.

When a confirmed government subsidy needs to be returned, the book value of the related assets will be reduced at the time of initial confirmation and the book value of the assets is adjusted. The balance of the related deferred income is reduced to the account balance of the related deferred income which is included in the current profit and loss. If there is no related deferred income, directly included in the profit and loss of the current period

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 28. Deferred tax assets/deferred tax liabilities

Deferred tax assets and deferred liabilities are recognised based on the differences (temporary differences) between tax bases of assets and liabilities and respective carrying amount. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or liability is settled.

##### **(1) Basis of confirmation for deferred tax assets**

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference and deduct loss and tax deduction for the year after the end of the year. However, deferred income tax assets resulting from the initial confirmation of assets or liabilities in a transaction with the following characteristics are not recognized: a. The transaction is not an enterprise merger. b. The transaction does not affect the accounting profit and the taxable income or the deductible loss as well.

As for deductible temporary differences related to the investment of the joint venture and meet the following conditions to confirm the corresponding deferred income tax assets: Temporary differences are likely to be turned back in the foreseeable future and it is likely to gain the amount of taxable income that is used to offset the temporary difference of deductible in the future.

##### **(2) Basis of confirmation for deferred tax liabilities**

The Group recognised the temporary tax difference between the current and the previous periods as deferred income tax liabilities. But it does not include:

- a. Temporary differences in the initial recognition of goodwill.
- b. A transaction or event formed by a non-enterprise merger. Meanwhile, when the transaction or event occurs, it will neither affect the accounting profits nor affect the temporary difference formed by the taxable income (or deductible loss).
- c. For temporary tax differences related to investment in subsidiaries and joint ventures, the time of temporary difference reversal can be controlled and the temporary difference is unlikely to turn back in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 29. Lease

Leases include finance lease and operating lease. A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

##### **(1) Operating lease accounting treatment**

###### *a. The Run rented assets*

The rental fee paid by the Group for the lease of the assets shall be apportioned according to the straight-line method and included in the current cost. The initial direct expenses related to the leasing transaction are included in the current expenses.

When the lessor undertakes the expenses related to the lease which the Group shall bear, the Group shall deduct the part of the expenses from the total amount of the rent, and the rental expenses shall be apportioned during the lease term and included in the current expenses.

###### *b. Management of leased assets*

The rental fee charged by the Group for the lease of the assets shall be assessed and confirmed as the rental income without deducting the whole tenancy period of the rent-free period. The initial direct expenses related to the lease transaction paid by the Group shall be included in the current expenses; If the amount is larger, the capital shall be capitalized and shall be included in the current period income according to the same basic stage as the rental income.

The Group undertook the shall be borne by the lessee of the costs and expenses relating to this lease, the Group will be the fees deducted from the total amount of rental income, according to the distribution after deduction of the cost of rent during the lease term.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 29. Lease (Continued)

##### (2) *Finance lease accounting treatment*

- a. Financial leasing-in assets: the Group on the lease beginning date, the fair value of the leased asset and the present value of minimum lease payment of the two lower as the entry value of the assets and the difference as the unrecognized financing charges. Identification basis, valuation and depreciation method of financing rented assets can refer to Note 4 18. Fixed asset.

The Group adopts the effective interest method to amortize the unrecognized financing expenses and be included in the financial expenses during the asset lease period.

- b. Financial leasing-out assets: the Group recognizes the difference between the sum of the finance lease and the unrecognized residual at the beginning of the lease as the unrealized financing income and recognizes the rental income in the future period in which the rent is received, the initial direct costs incurred by the Group relating to the leasing transaction are included in the initial measurement of the finance lease and the amount recognized in the lease term is reduced.

#### 30. Discontinued operation

It can be recognized as an integral part of discontinued operation when the component has been disposed of or classified as a component that can be separately classified for sale and meet one of the following requirements:

- (1) The component represents an independent major business or a separate major operating area.
- (2) This component is part of a related plan to be disposed of an independent major business or a separate major operating area.
- (3) The component is a subsidiary made for resale.

Operating profit and loss and dispose profit and loss as the terminated profit and loss in the profit statement.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 31. Safety production cost

The Group accrues safety production cost and records it to the cost of related products or in the profit or loss and transferred to special reserve based on state regulations. The Group shall directly reduce special reserve if the safety production cost is belonging to expense. If fixed asset is arising in using safety production cost, all expenditures are recorded in construction in progress and recognized as fixed asset when the safety project is finished and ready for its intended use; meanwhile, the Group shall reduce special reserve based on the cost of the fixed asset and recognize the accumulated depreciation in the same amount. No depreciation shall be recognised in for this fixed asset in following periods.

#### 32. Five-level classification of the asset quality in financial business

The subsidiary of the Group YTO Group Finance Co., Ltd belongs to the non-banking financial institutions. In accordance with the requirements of the China Banking Regulatory Commission, a five-level classification management is implemented on the assets of creditor's rights type, assets of equity type and other assets. Such assets are classified into five categories as normal, attention, secondary, suspicious and loss class. The percentage on which the impairment provision is accrued for each class is 1.5%, 3%, 30%, 60% and 100% respectively.

#### 33. General risk reserve

The subsidiary of the Group YTO Group Finance Co., Ltd belongs to the non-banking financial institutions. According to the provisions in the 'Measures for the administration of reserve provision of financial enterprises' (Cai Jin [2012] No. 20) issued by the Ministry of finance, after adopting the standard method to calculate the potential risk valuation of risk assets, with the deduction of the asset impairment provision accrued, at the end of each year, the general risk reserve which is used to make up the unidentified possibility loss should be accrued from the net profit. When the potential risk valuation is lower than the asset impairment provision, no general risk reserve should be accrued. In principle, the balance of the general risk reserve should not be lower than the 1.5% of the ending balance of the risk assets.

The assets borne the risk and loss of YTO Group Finance Co., Ltd specifically include: loans and advances granting out, financial assets available-for-sale, held-to-maturity investments, long-term equity investments, inter-bank deposits, funds lending out, assets used to set off debts and other receivables, etc.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 34. Changes in significant accounting policies and accounting estimates

##### (1) Changes in significant accounting policies

##### (a) Impacts of New Income Criteria on the Group

In 2017, the Ministry of Finance announced the revised “Accounting Standards for Business Enterprises No. 14 – Revenue”. According to the implementation time of the new income standard, enterprises listed at the same time both domestically and internationally will be implemented from January 1, 2018. The Group implements new accounting standards in accordance with the above provisions. The standard stipulates that the enterprise that implements this standard should adjust the retained earnings and other items in the financial statements for the first time of the implementation of the standard based on the cumulative number of impacts, and the information for the comparable period will not be adjusted. Based on the assessment of the Group, the Group’s implementation of the new revenue standard has not had a significant impact on the Group’s existing revenue recognition. the Group does not need to adjust the retained earnings at the beginning of the year. However, it has the following impact on the Group’s financial statements:

Item	December 31, 2017	Cumulative impact amount		Subtotal	January 1, 2018
		Classification and measurement impact	Impact of impairment of financial assets		
Advance from customers	236,220,968.60	-236,220,968.60		-236,220,968.60	
Contractual liability		236,220,968.60		236,220,968.60	<b>236,220,968.60</b>

The impact on the Company’s financial statements:

Item	December 31, 2017	Cumulative impact amount		Subtotal	January 1, 2018
		Classification and measurement impact	Impact of impairment of financial assets		
Advance from customers	175,265,170.24	-175,265,170.24		-175,265,170.24	
Contractual liability		175,265,170.24		175,265,170.24	<b>175,265,170.24</b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 34. Changes in significant accounting policies and accounting estimates (Continued)

(1) *Changes in significant accounting policies (Continued)*

(b) *Impacts of the implementation of the new financial instrument guidelines on our company*

In 2017 March, the Ministry of Finance issued the revised “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets”, “Accounting Standards for Business Enterprises No. 24 – Hedging Accounting”, “Accounting Standards for Business Enterprises No. 37 – Financial Instruments” Presentation. The above guidelines stipulate that enterprises listed at the same time both domestically and internationally shall be implemented from January 1, 2018, and the Group shall implement the new accounting standards in accordance with the above provisions. The standard stipulates that on the implementation date of the standard, the enterprise shall classify and measure the financial instruments according to the regulations. If the data of the previous comparative financial statements are inconsistent with the requirements of this standard, no adjustment is needed. The difference between the original book value of the financial instrument and the new book value at the date of implementation of the standard requires adjustment of retained earnings at the beginning of 2018, other comprehensive income and other items in the financial statements. The items previously accounted for in the available-for-sale financial assets of the Group are designated as financial assets measured at fair value through profit or loss. This accounting change affects the opening of owners’ equity at the beginning of the period by RMB591,510,084.65, which increases the undistributed profit at the beginning of the period by RMB507,215,011.34, increases the initial surplus reserve by RMB3,658,821.49, and increases the minority shareholders’ equity of the initial period by RMB80,636,251.82.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 34. Changes in significant accounting policies and accounting estimates (Continued)

##### (1) Changes in significant accounting policies (Continued)

(b) Impacts of the implementation of the new financial instrument guidelines on our company  
(Continued)

- ① The impact of the implementation of the new financial instrument guidelines on related items on the consolidated balance sheet at the beginning of the current period is shown below:

Item	December 31, 2017	Cumulative impact amount		Subtotal	January 1, 2018
		Classification and measurement impact	Impact of impairment of financial assets		
Trading financial assets		924,502,397.15		924,502,397.15	924,502,397.15
Financial Assets Measured at Fair Value and Their Changes Included in Current Profits and Losses	40,478,838.50	-40,478,838.50		-40,478,838.50	
Non-current assets maturing within one year		37,481,505.81		37,481,505.81	37,481,505.81
Debt investment		20,863,013.67		20,863,013.67	20,863,013.67
Available-for-sale financial assets	188,129,341.41	-188,129,341.41		-188,129,341.41	
Other debt investment					
Held-to-maturity investments	58,344,519.48	-58,344,519.48		-58,344,519.48	
Deferred Tax Liability	28,741,816.43	104,384,132.59		104,384,132.59	133,125,949.02
Surplus reserves	438,442,350.67	3,658,821.49		3,658,821.49	442,101,172.16
Retained earnings	1,273,219,846.84	507,215,011.34		507,215,011.34	1,780,434,858.18
Minority interests	641,677,082.15	80,636,251.82		80,636,251.82	722,313,333.97

*Note 1:* The contract terms of bonds with maturity investments with book value RMB58,344,519.48 on January 1, 2018 which were classified in previous years dictate cash flows generated on a particular date are only payments of principal and interest based on the amount of outstanding principal and the goal of managing this amount of assets is to collect contract cash flow. Therefore, this part of the amount is reclassified from Held-to-maturity investments to debt investment and non-current assets maturing within one year.

*Note 2:* Available-for-sale financial assets of which the book value is RMB188,129,341.41 on January 1, 2018 are shares of Luoyang Bank and Luoyin Financial Leasing Co., Ltd. held by the Group respectively. These were designated as trading financial assets which be measured at fair value and whose changes are recorded in profits and losses and accounted for at fair value.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 34. Changes in significant accounting policies and accounting estimates (Continued)

(1) *Changes in significant accounting policies (Continued)*

(b) *Impacts of the implementation of the new financial instrument guidelines on our company  
(Continued)*

- ② The impact of the implementation of the new financial instrument guidelines on related items on the balance sheet of the parent company at the beginning of the current period is shown below:

Item	December 31, 2017	Cumulative impact amount		Subtotal	January 1, 2018
		Classification and measurement impact	Impact of impairment of financial assets		
Trading financial assets		153,044,958.65		153,044,958.65	153,044,958.65
Total current assets	6,652,457,565.84	153,044,958.65		153,044,958.65	6,805,502,524.49
Available-for-sale financial assets	110,000,000.00	-110,000,000.00		-110,000,000.00	
Total non-current assets	5,543,492,066.13	-110,000,000.00		-110,000,000.00	5,433,492,066.13
Total assets	12,195,949,631.97	43,044,958.65		43,044,958.65	12,238,994,590.62
Deferred Tax Liability		6,456,743.80		6,456,743.80	6,456,743.80
Surplus reserves	363,949,066.84	3,658,821.49		3,658,821.49	367,607,888.33
Retained earnings	1,711,697,203.46	32,929,393.36		32,929,393.36	1,744,626,596.82
Total Owner's Rights	5,066,289,316.25	36,588,214.85		36,588,214.85	5,102,877,531.10

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 34. Changes in significant accounting policies and accounting estimates (Continued)

##### (1) Changes in significant accounting policies (Continued)

(c) Summary of the impact of changes in presentation format and implementation of new revenue standards and new financial instruments standards on our company

① Consolidated balance sheet

Item	December 31, 2017	Impact of changes in presentation format	Adjusted amount after presentation format change	Impacts of New Accounting Standards for Enterprises	January 1, 2018
Trading financial assets		40,478,838.50	40,478,838.50	884,023,558.65	<b>924,502,397.15</b>
Financial Assets Measured at Fair Value and Their Changes					
Included in Current Profits and Losses	40,478,838.50	-40,478,838.50			
Notes receivable	531,530,154.03	-531,530,154.03			
Accounts receivable	1,238,285,603.95	-1,238,285,603.95			
Notes receivable and accounts receivable		1,769,815,757.98	1,769,815,757.98		<b>1,769,815,757.98</b>
Interest receivable	14,148,062.85	-14,148,062.85			
Dividend Receivable					
Other receivables	123,425,502.13	14,148,062.85	137,573,564.98		<b>137,573,564.98</b>
Non-current assets maturing within one year				37,481,505.81	<b>37,481,505.81</b>
Current assets	8,417,140,843.74		8,417,140,843.74	921,505,064.46	<b>9,338,645,908.20</b>
Debt investment				20,863,013.67	<b>20,863,013.67</b>
Available-for-sale financial assets	188,129,341.41			-188,129,341.41	
Other investment on bonds					
Held-to-maturity investments	58,344,519.48			-58,344,519.48	
Non-current assets	5,685,632,683.94			-225,610,847.22	<b>5,460,021,836.72</b>
Total Assets	14,102,773,527.68			695,894,217.24	<b>14,798,667,744.92</b>
Notes payable	820,501,598.94	-820,501,598.94			
Accounts payable	1,465,330,454.31	-1,465,330,454.31			
Notes payable and accounts payable		2,285,832,053.25	2,285,832,053.25		<b>2,285,832,053.25</b>
Interest payable	61,862,938.69	-61,862,938.69			
Dividends payable	55.83	-55.83			
Other accounts payable	276,121,409.06	61,862,994.52	337,984,403.58		<b>337,984,403.58</b>
Advance from customers	236,220,968.60			-236,220,968.60	
Contractual liability				236,220,968.60	<b>236,220,968.60</b>
Current liabilities	7,747,678,120.64				<b>7,747,678,120.64</b>
Deferred Tax Liability	28,741,816.43			104,384,132.59	<b>133,125,949.02</b>
Surplus reserve	438,442,350.67			3,658,821.49	<b>442,101,172.16</b>
Undistributed profits	1,273,219,846.84			507,215,011.34	<b>1,780,434,858.18</b>
Minority shareholders' rights and interests	641,677,082.15			80,636,251.82	<b>722,313,333.97</b>
Total Owner's Rights	5,438,982,478.06			591,510,084.65	<b>6,030,492,562.71</b>

Note: The above table shows only the affected financial statements, excluding the unaffected ones.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 34. Changes in significant accounting policies and accounting estimates (Continued)

##### (1) Changes in significant accounting policies (Continued)

(c) Summary of the impact of changes in presentation format and implementation of new revenue standards and new financial instruments standards on our company (Continued)

② Balance sheet of the parent company

Item	December 31, 2017	Impact of changes in presentation format	Adjusted amount after presentation format change	Impacts of New Accounting Standards for Enterprises	January 1, 2018
Trading financial assets				153,044,958.65	<b>153,044,958.65</b>
Notes receivable	246,333,654.83	-246,333,654.83			
Accounts receivable	1,196,344,093.78	-1,196,344,093.78			
Notes receivable and accounts receivable		1,442,677,748.61	1,442,677,748.61		<b>1,442,677,748.61</b>
Interest receivable	19,894,867.06	-19,894,867.06			
Dividend Receivable	96,722,501.47	-96,722,501.47			
Other receivables	46,805,937.22	116,617,368.53	163,423,305.75		<b>163,423,305.75</b>
Non-current assets maturing within one year					
Current assets	6,652,457,565.84		6,652,457,565.84	153,044,958.65	<b>6,805,502,524.49</b>
Debt investment					
Available-for-sale financial assets	110,000,000.00			-110,000,000.00	
Total Assets	12,195,949,631.97			43,044,958.65	<b>12,238,994,590.62</b>
Notes payable	690,789,304.86	-690,789,304.86			
Accounts payable	1,055,260,515.38	-1,055,260,515.38			
Notes payable and accounts payable		1,746,049,820.24	1,746,049,820.24		<b>1,746,049,820.24</b>
Interest payable	53,352,451.24	-53,352,451.24			
Dividends payable					
Other accounts payable	193,199,472.30	53,352,451.24	246,551,923.54		<b>246,551,923.54</b>
Advance from customers	175,265,170.24			-175,265,170.24	
Contractual liability				175,265,170.24	<b>175,265,170.24</b>
Current liabilities	6,340,370,905.00		6,340,370,905.00		<b>6,340,370,905.00</b>
Deferred Tax Liability				6,456,743.80	<b>6,456,743.80</b>
Surplus reserve	363,949,066.84			3,658,821.49	<b>367,607,888.33</b>
Undistributed profits	1,711,697,203.46			32,929,393.36	<b>1,744,626,596.82</b>
Total Owner's Rights	<u>5,066,289,316.25</u>			<u>36,588,214.85</u>	<b><u>5,102,877,531.10</u></b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 34. Changes in significant accounting policies and accounting estimates (Continued)

##### (1) Changes in significant accounting policies (Continued)

(c) Summary of the impact of changes in presentation format and implementation of new revenue standards and new financial instruments standards on our company (Continued)

##### ③ Consolidated income statement

Item	Year 2017	Impact of changes in presentation format	Adjusted amount after presentation format change
Administrative expenses	889,660,787.33	-386,339,439.17	503,321,348.16
R & D expenses		386,339,439.17	386,339,439.17

##### ④ Income statement of the parent company

Item	Year 2017	Impact of changes in presentation format	Adjusted amount after presentation format change
Administrative expenses	565,068,252.96	-313,513,211.01	251,555,041.95
R & D expenses		313,513,211.01	313,513,211.01

##### (2) Changes in accounting estimates

The main accounting estimates in this report did not change.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### V. TAXATION

#### (1) Main categories of tax and tax rates

Categories of tax	Tax basis	Tax rates
Value added tax	Domestic sales: Provide processing, repair and repair services, etc.	17%, 16%
	Provide agricultural machinery sales, tap water, heating, gas, etc.	11%, 10%
	Other taxable sales service behavior	6%
Urban construction and maintenance tax	Payment of the turnover tax	7%, 5%
Education surcharges	Payment of the turnover tax	3%, 2%
Enterprise income tax	Taxable income	25%, 15%
Property tax	The original value of the property of the 70% (or rental income) as the tax base	1.2%, 12%

The income tax rate of different tax subject:

Name of the subject of tax payment	Income tax rate
First Tractor Company Limited	15%
YTO (Luoyang) Diesel Engine Co., Ltd.	15%
Luoyang Tractor Research Institute Co., Ltd.	15%
Luoyang Xiyuan vehicle and Power Inspection Institute Co., Ltd.	15%
YTO (Luoyang) Flag Auto-body Co., Ltd.	15%
Other subsidiaries	25%
Foreign subsidiaries	Local tax rate

#### (2) The preferential tax policy and the basis

##### 1. Value added tax (VAT)

From January 1, 2016, Luoyang Tractor Research Institute Co., Ltd, as the transformed scientific research institute, was exempted from import tariffs and VAT for importing reasonable quantities of technical research products that cannot be locally manufactured or whose performance cannot meet the needs according to the decisions of Cai Guan Shui 2016 No. 70 'the Ministry of Finance and the General Administration of Customs of the State Administration of Taxation on the '13th Five-Year' period to support technological innovation import tax policy notice' and Cai Guan Shui 2016 No. 72 'Notice on the publication of the exemption list of import scientific research, scientific and technological development and teaching supplies'.

Luoyang Tractor Research Institute Co., Ltd. is exempted from VAT on revenue from technology development according to the provision of (the twenty-sixth item) of the article 1 of the Appendix 3 'The rules of the pilot by replacing business tax with VAT transition policy' of the 'Notice of the Ministry of Finance and the State Administration of Taxation on the full implementation of the pilot by replacing business tax with VAT' (Caishui [2016] No. 36). Luoyang Changxing Agriculture Machinery Co., Ltd., subsidiaries of the Group, are exempted from VAT on sale of agricultural machinery according to Caishui [2001] No. 113 Notice of Exemption from VAT for Agricultural Production Issued by Ministry of Finance and State Administration of Taxation.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### V. TAXATION (CONTINUED)

#### (2) The preferential tax policy and the basis (Continued)

##### 1. Value added tax (VAT) (Continued)

Since the subsidiaries of the Group, CAD FUND MACHINERY (SA) (PTY) LTD., YTO France SAS and YTO Cote d'Ivoire Agricultural Machinery Assembly Co., Ltd were registered overseas, these companies pay VAT in accordance with local applicable tax rates.

##### 2. Enterprise income tax

As jointly approved by the Science and Technology Department and the Finance Department of Henan Province, the State Administration of Taxation and the local tax bureau, First Tractor Company Limited and its subsidiaries, YTO Diesel Engine Co., Ltd., Tractors Research Company, Luoyang Xiyuan Vehicles and Power Inspection Institute Co., Ltd. and YTO Flag Auto-body Company Limited are entitled to the 15% preferential income tax rate for new and high tech enterprises according to the stipulations of Article 28 of Law of the People's Republic of China on Enterprise Income Tax.

Since the subsidiaries of the Group, CAD FUND MACHINERY (SA) (PTY) LTD., YTO France SAS and YITWO AGRO-INDUSTRIAL, Ltd were registered overseas, these companies pay income tax in accordance with local applicable tax rates.

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT

The following disclosed financial statement data, except as specified, "The beginning or beginning of the year" means January 1, 2018, "the end of the year or the end of the period" means December 31, 2018, "the current year or the current period" means January 1, 2018 to December 31, 2018, "the last year or the last period" means January 1, 2017 to December 31. New revenue standards and new financial instruments standards were implemented to adjust the items related to the financial statements at the beginning of the year for the first time. The data of December 31, 2017, January 1, 2018 and December 31, 2018 were presented respectively. The unit of currency is RMB.

#### 1. Monetary funds

Item	Ending balance	Beginning balance
Cash on hand	1,054,228.70	814,564.53
Bank deposit	1,493,280,584.24	3,225,295,953.08
Other monetary funds	55,510,528.24	66,873,769.89
Total	<u>1,549,845,341.18</u>	<u>3,292,984,287.50</u>
Including: total amount deposited abroad	91,002,872.56	100,459,281.64

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 1. Monetary funds (Continued)

The restricted monetary funds are as follows:

Item	Ending balance	Beginning balance
Deposit of bank acceptance	33,196,283.29	59,188,686.97
Other deposit	10,068,971.93	7,610,859.39
Deposit reserve requirement for central banks	226,992,255.72	279,449,913.29
Total	<u>270,257,510.94</u>	<u>346,249,459.65</u>

#### 2. Lendings to banks and other financial institutions

Item	Ending balance	Beginning balance
Banks		
Non-bank financial institutions	200,000,000.00	
Total	<u>200,000,000.00</u>	

#### 3. Financial assets measured at fair value with changes in value recognized in profit or loss

Item	December 31, 2017
Subtotal of financial assets held for trading	13,478,838.50
Equity instrument investment	13,478,838.50
Subtotal of designated as financial assets measured at fair value and its movement recorded through profit or loss	27,000,000.00
Trust products	27,000,000.00
Total	<u>40,478,838.50</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 4. Trading financial assets

Item	Ending balance	Beginning balance
Subtotal of financial assets measured at fair value and its movement recorded through profit or loss	<b>14,058,351.64</b>	13,478,838.50
Debt instrument investment	<b>295,500.00</b>	
Equity instrument investment	<b>13,762,851.64</b>	13,478,838.50
Subtotal of designated as financial assets measured at fair value and recorded in current profits and losses	<b>883,177,616.52</b>	911,023,558.65
Debt instrument investment		
Equity instrument investment	<b>883,177,616.52</b>	884,023,558.65
Trust products		27,000,000.00
Total	<b>897,235,968.16</b>	924,502,397.15

#### 5. Derivative financial assets

Item	Ending balance	Beginning balance
Foreign currency loan that locking foreign exchange rate	<b>578,743.73</b>	
Total	<b>578,743.73</b>	

Explanation for derivative financial assets: the Group borrowed 35 million US dollars from Luoyang Branch of China Construction Bank Co., Ltd. in this year. Meanwhile, a forward settlement and sale agreement was signed with Luoyang Branch of China Construction Bank Co., Ltd.. According to the provisions of Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, when a company becomes a party to a financial instrument contract, it should recognize a financial asset or financial liability. Therefore, the Group recognizes this financial instrument as a derivative financial asset.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 6. Notes receivable and Accounts receivable

Item	Ending balance	Beginning balance
Notes receivable	523,719,132.77	531,530,154.03
Accounts receivable	405,771,306.07	1,238,285,603.95
Total	<u>929,490,438.84</u>	<u>1,769,815,757.98</u>

#### (1) Notes receivable

##### a. Classification of notes receivable

Item	Ending balance	Beginning balance
Bank acceptance notes	488,765,857.28	492,719,837.02
Commercial acceptance notes	34,953,275.49	38,810,317.01
Total	<u>523,719,132.77</u>	<u>531,530,154.03</u>

##### b. Notes receivable which have been pledged at the end of the period

Item	Amount pledged at the end of the period
Bank acceptance notes	14,919,857.48
Commercial acceptance notes	—
Total	<u>14,919,857.48</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 6. Notes receivable and Accounts receivable (Continued)

##### (1) Notes receivable (Continued)

- c. Notes receivable which have been endorsed or discounted but not yet due at the end of the period

Item	Amount de- recognized at the end of the period	Amount not de- recognized at the end of the period
Bank acceptance notes	684,799,087.30	_____
Total	<u>684,799,087.30</u>	<u>_____</u>

- d. Notes that are transferred to accounts receivable by the Group at the end of the term due to the drawer has not fulfilled contract

Item	Amount transferred to accounts receivable at the end of the term
Bank acceptance notes	1,077,000.00
Total	<u>1,077,000.00</u>

*Note 1:* The above-mentioned notes converted into accounts receivable have been received after maturity.

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**6. Notes receivable and Accounts receivable (Continued)**

**(2) Accounts receivable**

*a. Classified disclosure of accounts receivable*

Item	Book balance		Ending Balance		book value
	Amount	Ratio (%)	Amount	Accrual Ratio (%)	
Accounts receivable for anticipated credit losses on a portfolio basis	896,199,217.42	100.00	490,427,911.35	54.72	405,771,306.07
Including: Aging portfolio	843,277,315.54	94.09	474,560,442.71	56.28	368,716,872.83
Risk exposure portfolio such as collateral	52,921,901.88	5.91	15,867,468.64	29.98	37,054,433.24
<b>Total</b>	<b>896,199,217.42</b>	<b>100.00</b>	<b>490,427,911.35</b>	<b>54.72</b>	<b>405,771,306.07</b>

Item	Book balance		Opening Balance		book value
	Amount	Ratio (%)	Amount	Accrual Ratio (%)	
Accounts receivable for anticipated credit losses on a portfolio basis	1,756,324,108.27	100.00	518,038,504.32	29.50	1,238,285,603.95
Including: Aging portfolio	799,979,303.48	45.55	146,804,376.05	18.35	653,174,927.43
Risk exposure portfolio such as collateral	956,344,804.79	54.45	371,234,128.27	38.82	585,110,676.52
<b>Total</b>	<b>1,756,324,108.27</b>	<b>100.00</b>	<b>518,038,504.32</b>	<b>29.50</b>	<b>1,238,285,603.95</b>

*Note:* The portfolio of accounts receivable is reclassified according to accounting standards in the current period.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 6. Notes receivable and Accounts receivable (Continued)

##### (2) Accounts receivable (Continued)

b. Accounts receivable for anticipated credit losses on a portfolio basis aging analysis of accounts receivable

① Aging portfolio

Aging	Ending Balance		Accrual Ratio (%)
	Book Balance	Bad debt allowance	
Within 1 year	343,568,000.67	9,073,218.32	2.64
1 to 2 years	25,008,686.30	9,819,940.91	39.27
2 to 3 years	15,054,404.96	13,074,500.34	86.85
3 years more	459,646,223.61	442,592,783.14	96.29
Total	<u>843,277,315.54</u>	<u>474,560,442.71</u>	<u>56.28</u>

② Risk exposure portfolio such as collateral

Name of portfolio	Book Balance	Bad debt allowance	Accrual Ratio (%)
Risk exposure portfolio such as collateral	<u>52,921,901.88</u>	<u>15,867,468.64</u>	<u>29.98</u>
Total	<u>52,921,901.88</u>	<u>15,867,468.64</u>	<u>29.98</u>

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**6. Notes receivable and Accounts receivable (Continued)**

**(2) Accounts receivable (Continued)**

*c. Age Disclosure of Accounts Receivable*

Aging	Ending Balance		Accrual Ratio (%)
	Book Balance	Bad debt allowance	
Within 1 year	353,594,062.98	13,397,704.67	3.79
1 to 2 years	29,007,514.78	13,818,769.39	47.64
2 to 3 years	16,184,404.96	13,454,500.34	83.13
3 years more	497,413,234.70	449,756,936.95	90.42
Total	<u>896,199,217.42</u>	<u>490,427,911.35</u>	<u>54.72</u>

*d. Provision for bad debts charged, recovered or returned in the current period*

Item	Opening balance	Changes in the current period				Ending Balance
		Increase: Provision	Decrease: roll-out	Decrease: Write off	Decrease: Other changes	
Accounts receivable for anticipated credit losses on a portfolio basis	518,038,504.32	-6,198,452.06	20,707,870.62	357,000.00	347,270.29	490,427,911.35
Including: Aging portfolio	146,804,376.05	328,113,511.05		357,000.00	444.39	474,560,442.71
Risk exposure portfolio such as collateral	371,234,128.27	-334,311,963.11	20,707,870.62		346,825.90	15,867,468.64
Total	<u>518,038,504.32</u>	<u>-6,198,452.06</u>	<u>20,707,870.62</u>	<u>357,000.00</u>	<u>347,270.29</u>	<u>490,427,911.35</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 6. Notes receivable and Accounts receivable (Continued)

##### (2) Accounts receivable (Continued)

e. Actual write-off of accounts receivable during the reporting period

Item	Amount of write-off
Actual write-off of accounts receivable	357,000.00

The write-off of important accounts receivable is as follows:

Company	The nature of accounts receivable	Amount of write-off	Reason of write-off	Write-off procedures	Due to related party transactions
Weifang Mingguan Energy Saving Technology Co., Ltd.	Payment for goods	357,000.00	Noncollectable	Internal approval	No
Total		<u>357,000.00</u>			

f. Top Five Accounts Receivable on the Final Balance Collection by the Debtor

Company	Ending Balance	Ratio (%)	Bad debt allowance
Liaoning Dongsheng Machinery Equipment Co., Ltd.	82,195,403.55	9.17	82,195,403.55
Urumqi Shifeng Agricultural Machinery Equipment Co., Ltd.	63,122,726.45	7.04	63,122,726.45
Ningxia Boxin Hengtong Machinery Equipment Co., Ltd.	62,915,435.42	7.02	62,915,435.42
Weichai power company limited	24,986,509.71	2.79	371,746.07
Cuba TECNOIMPORT	24,979,645.67	2.79	257,327.61
Total	<u>258,199,720.80</u>	<u>28.81</u>	<u>208,862,639.10</u>

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

## VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

### 7. Advances to suppliers

**(1) Aging analysis of advances to suppliers**

Aging	Ending balance			Beginning balance		Bad debt allowance
	Amount	Percentage (%)	Bad debt allowance	Amount	Percentage (%)	
Within 1 year	106,203,906.16	93.15	4,613,443.77	226,503,758.83	96.15	
1-2 years	1,495,475.48	1.31		4,146,459.72	1.76	
2-3 years	2,485,830.48	2.18	16,850.60	1,413,490.86	0.60	
Over 3 years	3,832,774.73	3.36	1,826,492.60	3,517,437.66	1.49	1,876,537.60
Total	<u>114,017,986.85</u>	<u>100.00</u>	<u>6,456,786.97</u>	<u>235,581,147.07</u>	<u>100.00</u>	<u>1,876,537.60</u>

**(2) No advances to supplier is over one year old and has significant in amount**

**(3) Details of top five advances to suppliers with the ending balance classified by the payees**

Company name	Ending balance	Percentage in the ending balance of advances to suppliers (%)	Aging	Reason
Anyang Iron and Steel Co., Ltd.	14,332,329.81	12.57	Year 2018	In progress
Zhengzhou Yunfei Chemical Co., Ltd.	8,013,460.00	7.03	Year 2018	In progress
China YTO Group Co., Ltd.	6,853,522.44	6.01	Year 2018	In progress
Shanxi Jianbang Group Co., Ltd.	5,210,162.93	4.57	Year 2018	In progress
Yus Wheeler Happy Machine Tool Trade (Shanghai) Co., Ltd.	4,500,000.00	3.95	Year 2018	In progress
Total	<u>38,909,475.18</u>	<u>34.13</u>		

**(4) Other explanations on advances**

N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 8. Other receivables

Item	Ending balance	Beginning balance
Interests receivable	17,708,921.80	14,148,062.85
Dividends receivable		
Other receivables	48,032,116.86	123,425,502.13
Total	65,741,038.66	137,573,564.98

#### (1) Interests receivable

##### a. Classification of interests receivable

Item	Ending balance	Beginning balance
Interest on fixed term deposits	17,363,333.33	14,148,062.85
Loan interest	87,810.69	
Other (Lendings to Banks and Other Financial Institutions)	257,777.78	
Total	17,708,921.80	14,148,062.85

##### b. Explanation of interests receivable

Interest receivable is mainly external deposit interest receivable at the end of the term of YTO Group Finance Co., Ltd. which is a subsidiary of the Group.

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**8. Other receivables (Continued)**

**(2) Other receivables**

*a. Disclosure of other receivables*

Item	Book balance		Ending Balance		Book value
	Amount	Ratio (%)	Bad debt allowance		
			Amount	Accrual Ratio (%)	
Accounts receivable for anticipated credit losses on a portfolio basis	80,653,037.75	100.00	32,620,920.89	40.45	48,032,116.86
Including: Aging portfolio	65,576,018.32	81.3	30,191,882.69	46.04	35,384,135.63
Low-risk portfolio	8,440,769.43	10.47	84,407.70	1.00	8,356,361.73
Risk exposure portfolio such as collateral	6,636,250.00	8.23	2,344,630.50	35.33	4,291,619.50
<b>Total</b>	<b>80,653,037.75</b>	<b>100.00</b>	<b>32,620,920.89</b>	<b>40.45</b>	<b>48,032,116.86</b>

Item	Book balance		Opening Balance		Book value
	Amount	Ratio (%)	Bad debt allowance		
			Amount	Accrual Ratio (%)	
Accounts receivable for anticipated credit losses on a portfolio basis	143,939,584.58	100.00	20,514,082.45	14.25	123,425,502.13
Including: Aging portfolio	46,206,183.21	32.10	18,006,425.39	38.97	28,199,757.82
Low-risk portfolio	90,825,440.43	63.10			90,825,440.43
Risk exposure portfolio such as collateral	6,907,960.94	4.80	2,507,657.06	36.30	4,400,303.88
<b>Total</b>	<b>143,939,584.58</b>	<b>100.00</b>	<b>20,514,082.45</b>	<b>14.25</b>	<b>123,425,502.13</b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 8. Other receivables (Continued)

##### (2) Other receivables (Continued)

b. Accounts receivable for anticipated credit losses on a portfolio basis

##### I. Aging portfolio

Aging	Book balance	Ending balance	Accrual Ratio (%)
		Bad debt allowance	
Within 1 year	31,161,549.54	2,717,229.23	8.72
1-2 years	13,880,630.66	6,940,815.34	50.00
2-3 years	2,538,785.60	2,538,785.60	100.00
Over 3 years	17,995,052.52	17,995,052.52	100.00
Total	<u>65,576,018.32</u>	<u>30,191,882.69</u>	<u>46.04</u>

##### II. Low-risk portfolio

Aging	Book balance	Ending balance	Accrual percentage (%)
		Bad debt allowance	
Within 1 year	3,836,964.76	38,369.65	1.00
1-2 years	405,228.12	4,052.29	1.00
2-3 years	702,854.11	7,028.54	1.00
Over 3 years	3,495,722.44	34,957.22	1.00
Total	<u>8,440,769.43</u>	<u>84,407.70</u>	<u>1.00</u>

##### III. Risk exposure portfolio such as collateral

Name of portfolio	Ending balance	Bad debt allowance	Accrual percentage (%)
Risk exposure portfolio such as collateral	<u>6,636,250.00</u>	2,344,630.50	35.33
Total	<u>6,636,250.00</u>	<u>2,344,630.50</u>	<u>35.33</u>

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**8. Other receivables (Continued)**

**(2) Other receivables (Continued)**

*c. Aging analysis of other receivables*

<b>Aging</b>	<b>Ending balance</b>	Opening Balance
Within 1 year	<b>34,998,514.30</b>	102,756,441.06
1–2 years	<b>14,285,858.78</b>	12,585,720.06
2–3 years	<b>3,241,639.71</b>	6,594,836.80
Over 3 years	<b>28,127,024.96</b>	22,002,586.66
Total	<b>80,653,037.75</b>	143,939,584.58

*d. Provision for bad debts charged, recovered or returned in the current period*

<b>Item</b>	Opening balance	Provision	Changes in the current period			Ending Balance
			recovered or returned	Write off	Other changes	
Accounts receivable for anticipated credit losses on a portfolio basis	20,514,082.45	12,106,834.10			4.34	<b>32,620,920.89</b>
Including: Aging portfolio	18,006,425.39	12,185,452.96			4.34	<b>30,191,882.69</b>
Low-risk portfolio		84,407.70				<b>84,407.70</b>
Risk exposure portfolio such as collateral	2,507,657.06	-163,026.56				<b>2,344,630.50</b>
Total	20,514,082.45	12,106,834.10			4.34	<b>32,620,920.89</b>

*e. No other receivables actually written off during the reporting period*

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 8. Other receivables (Continued)

##### (2) Other receivables (Continued)

f. Details of top five other receivables with the ending balance classified by the borrowers

Company	Nature of payment	Ending balance	Aging	Percentage in the ending balance of other receivables (%)	Ending balance of bad debt allowance
State Tax Bureau of Jianxi District, Luoyang City, Henan Province	Refundable export tax refund	18,742,247.72	Within 1 year	23.24	247,111.13
Henan Industry and Information Technology Commission	Receivables from government subsidies	10,000,000.00	1-2 year	12.40	5,000,000.00
Shanghai Pengpu Machinery Factory Co., Ltd.	Other	6,490,000.00	Over 3 years	8.05	2,292,959.42
Jiangsu Qingjiang Tractor Co., Ltd.	Other	3,315,484.00	Over 3 years	4.11	3,315,484.00
YTO Luoyang Zhongcheng Machinery Co., Ltd.	Other	3,648,116.00	1-4 years	4.52	36,481.16
Total		42,195,847.72		52.32	10,892,035.71

g. Other receivables involving government subsidies

Company name	Name of government subsidy project	Ending balance	Aging	The time, amount and basis expected to be collected
Henan provincial industry and Information Committee	The first (set) major technical equipment award and premium subsidy of Henan Province	10,000,000.00	1-2 years	The publicized results of the first (set) major technical equipment awards and premium subsidy funds in Henan Province.

Note: The government subsidy has been received after the period.

h. Other receivables that have not been terminated for the transfer of financial assets

i. No amount of assets and liabilities formed without the transfer of other receivables and continued involvement

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

## VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

### 8. Other receivables (Continued)

(2) *Other receivables (Continued)*

j. *Classification of other receivables by nature*

Nature of payment	Ending book value	Beginning book value
Receivables and payments between companies	10,491,012.79	62,716,087.28
Deposits and petty cash	6,952,889.93	18,113,027.33
Collection and payment of social insurance withheld	2,297,689.36	4,251,566.90
Tax refund for export receivables	18,495,136.59	20,155,412.14
Receivables from government subsidies	5,000,000.00	10,000,000.00
Others	4,795,388.19	8,189,408.48
Total	<u>48,032,116.86</u>	<u>123,425,502.13</u>

### 9. Buying back the sale of financial assets

(1) *Analysis according to the nature of the counterparty*

Item	Ending balance	Beginning balance
Domestic interbank institutes	150,203,731.40	80,207,776.70
Domestic other financial institutes		
Total	<u>150,203,731.40</u>	<u>80,207,776.70</u>

(2) *Analysis according to the asset type*

Item	Ending balance	Beginning balance
Bonds	150,203,731.40	80,207,776.70
Total	<u>150,203,731.40</u>	<u>80,207,776.70</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 9. Buying back the sale of financial assets (Continued)

(3) Analysis according to the remaining days to the maturity

Item	Ending balance	Beginning balance
Due within one month	<b>150,203,731.40</b>	80,207,776.70
Total	<b>150,203,731.40</b>	80,207,776.70

#### 10. Inventories

(1) Classification of inventories

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	604,138,987.04	139,305,649.45	464,833,337.59	539,256,453.22	59,088,195.81	480,168,257.41
Work in progress	341,918,801.28	23,415,057.58	318,503,743.70	230,435,730.54	12,701,477.66	217,734,252.88
Finished goods	670,907,338.57	50,606,797.26	620,300,541.31	475,006,527.76	15,831,448.89	459,175,078.87
Goods shipped in transit	27,619,518.60	907,353.78	26,712,164.82			
Turnover materials				13,575,785.59	2,972,287.14	10,603,498.45
Total	<b>1,644,584,645.49</b>	<b>214,234,858.07</b>	<b>1,430,349,787.42</b>	1,258,274,497.11	90,593,409.50	1,167,681,087.61

(2) Impairment provision for inventories

Item	Beginning balance	Increase in this period		Decrease in this period			Ending balance
		Provision	Others	Reversed	Write off	Other transfer out	
Raw materials	59,088,195.81	79,969,044.92	248,408.72				139,305,649.45
Work in progress	12,701,477.66	10,713,579.92					23,415,057.58
Finished goods	15,831,448.89	35,032,029.33				256,680.96	50,606,797.26
Goods shipped in transit		907,353.78					907,353.78
Turnover materials	2,972,287.14	-2,972,287.14					
Total	90,593,409.50	123,649,720.81	248,408.72			256,680.96	214,234,858.07

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 11. Non-current assets maturing within one year

Item	Ending balance	Beginning balance
Original value of accounts receivable due within one year	170,816,064.55	
The original value of creditor's rights investment within one year	114,582,672.94	93,703,764.51
The original value of financial lease within one year	9,162,965.01	
Less: unconfirmed financing gains	13,506,259.23	
Bad debt allowance	96,896,130.81	56,222,258.70
	<u>184,159,312.46</u>	<u>37,481,505.81</u>
Total	<u>184,159,312.46</u>	<u>37,481,505.81</u>

The explanation of non-current assets maturing within one year: China YTO Group Finance Co., Ltd., a subsidiary of the Group, purchased short-term financing bills "Guoyu Logistics CP001" 50 million yuan and "Guoyu Logistics CP002" 40 million yuan in January 2016. The issuer of Wuhan Guoyu Logistics Industry Group Co., Ltd. failed to raise the full amount of debt repayment funds as agreed upon. In March 2017, the Group sued Wuhan Guoyu Logistics Industry Group Co., Ltd. for payment of the bond principal and interest. In October 2017, the Higher People's Court of Hubei Province issued (2017) No. 18 Civil Mediation Letter of the Early Republic of Hubei. China YTO Group Finance Co., Ltd., the subsidiary of the Group, reached a settlement agreement with the issuer, Wuhan Guoyu Logistics Industry Group Co., Ltd. that Wuhan Guoyu Logistics Industry Group Co., Ltd. repays the principal, interest and penalty of the above-mentioned securities in three phases: RMB90 million, RMB6.3 million and RMB13.07124 million. At the same time, the Group has applied to frozen the 98.6% shares of Wuhan Guoyu Material Trading Co., Ltd., Wuhan Guoyu Logistics Industry Group Co., Ltd. and Wuhan Jiangyu Maritime Development Co., Ltd. In 2018, Guoyu Logistics Company only paid back RMB543.62 and had no executable finance. The overdue investments held by China YTO Group Finance Co., Ltd. holds were recognized as loss-related claims according to the <Five Classification Standards for Asset Quality of China YTO Group Finance Co., Ltd.>. By the end of this period, the provision for impairment of RMB93,703,220.89 has been made for the full amount of the claims.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 12. Other current assets

Item	Ending balance	Beginning balance
Deferred expenses	252,746.63	232,033.19
Structured deposit	1,232,000,000.00	357,000,000.00
Prepaid income tax	33,766,923.03	49,316,297.26
Entrusted loans		17,000,000.00
Financial products	544,357,700.80	700,000,000.00
Value-added tax left for deduction	219,060,350.79	364,024,794.23
Restrictive collective asset management plan		206,000,000.00
Advance payment of value-added tax	224,386.34	1,120,830.32
Advance payment of other tax	10,671.57	966.00
Subtotal	<u>2,029,672,779.16</u>	<u>1,694,694,921.00</u>
Less: Provision for impairment	<u>12,406,085.09</u>	
Total	<u>2,017,266,694.07</u>	<u>1,694,694,921.00</u>

#### 13. Loans and advances to customers

##### (1) Distribution details by individual and corporate of loans and advances

Item	Ending balance	Beginning balance
Subtotal of individual loans and advances	25,784,240.93	2,709,019.94
Property mortgages	23,780.93	61,719.94
Others	25,760,460.00	2,647,300.00
Subtotal of corporate loans and advances	1,019,705,884.92	965,236,933.58
Loans	923,971,500.00	851,074,540.00
Discounting	95,734,384.92	114,162,393.58
Total loans and advances	1,045,490,125.85	967,945,953.52
Less: Impairment provision of loans	34,111,662.94	33,204,129.15
Including: Provision made on individual basis		
Provision made on portfolio basis	<u>34,111,662.94</u>	<u>33,204,129.15</u>
Total carrying value of loans and advances	<u>1,011,378,462.91</u>	<u>934,741,824.37</u>

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**13. Loans and advances to customers (Continued)**

**(2) Distribution details by industry sectors of loans and advances**

Distribution of industry	Ending balance	Percentage (%)	Beginning balance	Percentage (%)
Machinery manufacturing	1,019,705,884.92	97.53	965,236,933.58	99.72
Individuals	25,784,240.93	2.47	2,709,019.94	0.28
Total loans and advances	1,045,490,125.85	100.00	967,945,953.52	100.00
Less: Impairment provision of loans	34,111,662.94	3.26	33,204,129.15	3.43
Including: Provision made on individual basis				
Provision made on portfolio basis	34,111,662.94	3.26	33,204,129.15	3.43
Total carrying value of loans and advances	1,011,378,462.91	-	934,741,824.37	-

**(3) Distribution details by geographic location of loans and advances**

Geographic distribution	Ending balance	Percentage (%)	Beginning balance	Percentage (%)
Northeast China	322,353,550.00	30.83	216,500,000.00	22.37
North China	22,840,970.00	2.18		
East China	31,053,800.00	2.97		
Central China	657,284,255.85	62.87	750,330,953.52	77.52
Northwest China	11,769,550.00	1.13	1,115,000.00	0.11
Other areas	188,000.00	0.02		
Total loans and advances	1,045,490,125.85	100.00	967,945,953.52	100.00
Less: Impairment provision of loans	34,111,662.94	3.26	33,204,129.15	3.43
Including: Provision made on individual basis				
Provision made on portfolio basis	34,111,662.94	3.26	33,204,129.15	3.43
Total carrying value of loans and advances	1,011,378,462.91	-	934,741,824.37	-

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 13. Loans and advances to customers (Continued)

##### (4) Distribution details by type of credit guarantee modes

Item	Ending balance	Beginning balance
Credit loans	420,000,000.00	246,000,000.00
Guaranteed loans	490,539,010.00	566,397,840.00
Loans secured by collateral	134,951,115.85	155,548,113.52
Including: mortgage loans	39,216,730.93	41,385,719.94
Pledged loans	95,734,384.92	114,162,393.58
Total loans and advances	1,045,490,125.85	967,945,953.52
Less: Impairment provision of loans	34,111,662.94	33,204,129.15
Including: Provision made on individual basis		
Provision made on portfolio basis	34,111,662.94	33,204,129.15
Total carrying value of loans and advances	<u>1,011,378,462.91</u>	<u>934,741,824.37</u>

##### (5) Provision for losses on loans

Item	Amount in this period		Amount in last period	
	Individual	Portfolio	Individual	Portfolio
Beginning balance	0.00	33,204,129.15	0.00	22,889,251.53
Current year provision	0.00	907,533.79	0.00	10,314,877.62
Ending balance	<u>0.00</u>	<u>34,111,662.94</u>	<u>0.00</u>	<u>33,204,129.15</u>

#### 14. Available-for-sale financial assets

Item	December 31, 2017		
	Book balance	Impairment provision	Book value
Measure by cost	192,452,141.41	4,322,800.00	188,129,341.41
Other	192,452,141.41	4,322,800.00	188,129,341.41
Total	<u>192,452,141.41</u>	<u>4,322,800.00</u>	<u>188,129,341.41</u>



## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 17. Long-term receivable

Nature of payment	Ending balance			Beginning balance			Discount Rate Interval
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value	
Finance lease cost	25,321,440.00	819,442.14	24,501,997.86				
Including: Unrealized Financing Income	1,993,297.96		1,993,297.96				
Selling goods by instalments	434,096,520.82	14,333,584.44	419,762,936.38				
Including: Unrealized Financing Income	57,508,821.62		57,508,821.62				
Less: Long-term receivables due within one year	166,472,770.33	3,192,909.92	163,279,860.41				
Total	292,945,190.49	11,960,116.66	280,985,073.83				

- (1) No long-term receivables terminated due to transfer of financial assets.
- (2) No assets and liabilities formed by transferring long-term receivables and continuing to involve them.
- (3) Explanation of long-term receivable: N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 18. Long-term equity investments

##### (1) Classification of long term equity investments

Invested company	Beginning balance	Additional investment	Investment reduced	Changes of increase/decrease in the period					Others	Ending balance	Ending balance of impairment provision
				Investment profit/loss recognized under equity method	Adjustment of other comprehensive income	Other equity changes	Declared cash dividends/profit to be distributed	Provision for impairment			
I. Investments in associates											
ZF YTO (Luoyang) Drive Axle Co., Ltd	140,461,266.85			-10,635,120.36					363,138.12	130,189,284.61	
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd	841,443.56			-82,126.74						759,316.82	
Luoyang Fusaite Auto Co., Ltd (Note 2)	7,004,515.65									7,004,515.65	7,004,515.65
Luoyang I&C Technology Consulting Co., Ltd	165,563.01			89,651.26						255,214.27	
Subtotal	148,472,789.07			-10,627,595.84					363,138.12	138,208,331.35	7,004,515.65
Total	148,472,789.07			-10,627,595.84					363,138.12	138,208,331.35	7,004,515.65

Note 1: Luoyang Fusaite Auto Co., Ltd has been in the state of discontinued operations. The Group is no longer involved in the operation and liquidation of the Group and drawn the related assigned staff back. Full impairment has been provided for investments in the Group.

#### 19. Fixed assets

Item	Ending balance	Beginning balance
Fixed assets	2,942,857,496.39	3,030,222,384.21
Liquidation of fixed assets		
Total	2,942,857,496.39	3,030,222,384.21

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 19. Fixed assets (Continued)

##### (1) Original Value and Accumulated Depreciation of Fixed Assets

###### a. Detail of fixed assets

Item	Land	Buildings	Machinery	Transportation equipment	Electronic and office equipment	Other equipment	Total
I. Original book balance							
1. Beginning balance	8,059,777.65	2,171,370,541.99	4,101,695,563.78	55,432,453.03	103,217,357.62	5,273,134.69	6,445,048,828.76
2. Increase amount in this period	46,485.00	124,131,781.17	107,192,780.67	2,337,271.65	8,399,415.57	812,345.17	242,920,079.23
Purchase	0.00	6,991,708.76	2,458,996.49	859,848.34	4,486,129.83	111,963.44	14,908,646.86
Transferred from construction in progress	0.00	117,998,508.07	104,872,069.64	1,867,044.42	3,391,423.58	681,638.14	228,810,683.85
Converted difference in Foreign Currency							
Statements	46,485.00	-858,435.66	-138,285.46	-389,621.11	521,862.16	18,743.59	-799,251.48
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this period	-	1,851,863.27	41,788,088.26	2,809,197.41	5,817,436.33	154,056.89	52,420,642.16
Disposal of scrapped	0.00	1,851,863.27	41,788,088.26	2,809,197.41	5,817,436.33	154,056.89	52,420,642.16
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	8,106,262.65	2,293,650,459.89	4,167,100,256.19	54,960,527.27	105,799,336.86	5,931,422.97	6,635,548,265.83
II. Accumulated depreciation							
1. Beginning balance	0.00	882,559,906.05	2,386,566,158.33	33,349,292.88	74,258,007.75	3,614,945.68	3,380,348,310.69
2. Increase amount in this period	-	66,260,325.13	223,874,858.19	3,599,903.65	8,367,846.71	448,708.63	302,551,642.31
Provision	0.00	66,595,358.32	224,109,973.29	3,742,293.75	7,822,493.42	435,556.89	302,705,675.67
Converted difference in Foreign Currency							
Statements	0.00	-335,033.19	-235,115.10	-142,390.10	545,353.29	13,151.74	-154,033.36
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this period	-	1,360,975.66	38,458,593.68	2,424,409.47	3,281,497.06	153,829.39	45,679,305.26
Disposal of scrapped	0.00	1,360,975.66	38,458,593.68	2,424,409.47	3,281,497.06	153,829.39	45,679,305.26
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	-	947,459,255.52	2,571,982,422.84	34,524,787.06	79,344,357.40	3,909,824.92	3,637,220,647.74
III. Impairment provision							
1. Beginning balance	0.00	9,327,739.08	22,878,508.25	2,143,737.75	49,922.43	78,226.35	34,478,133.86
2. Increase amount in this period	4,363,098.80	1,323,307.71	14,980,285.31	46,624.64	252,161.72	115,374.30	21,080,852.48
Provision	4,350,588.80	1,323,047.21	14,940,126.48	46,624.64	252,039.98	115,043.50	21,027,470.61
Converted difference in Foreign Currency							
Statements	12,510.00	260.50	40,158.83	0.00	121.74	330.80	53,381.87
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this period	-	-	53,877.39	34,987.25	-	-	88,864.64
Disposal of scrapped	0.00	0.00	53,877.39	34,987.25	0.00	0.00	88,864.64
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	4,363,098.80	10,651,046.79	37,804,916.17	2,155,375.14	302,084.15	193,600.65	55,470,121.70
IV. Book value							
1. Ending balance of book value	3,743,163.85	1,335,540,157.58	1,557,312,917.18	18,280,365.07	26,152,895.31	1,827,997.40	2,942,857,496.39
2. Beginning balance of book	8,059,777.65	1,279,482,896.86	1,692,250,897.20	19,939,422.40	28,909,427.44	1,579,962.66	3,030,222,384.21

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**19. Fixed assets (Continued)**

**(1) Original Value and Accumulated Depreciation of Fixed Assets (Continued)**

*b. Fixed assets leased out by operating lease*

Item	Book value
Houses and buildings	133,092,794.05
Machine and equipment	<u>2,756,382.06</u>
Total	<u><u>135,849,176.11</u></u>

*c. Fixed assets with the property right certificate unprocessed yet*

Item	Book value	Reason for property right certificate not yet processed
New Youth Jiayuan Established by Subsidiary Research Institute	66,781,029.96	The project is still in the stage of completion audit, so no real estate certificate has been obtained.
Main Factory house and office building of subsidiary Fulaige Zhengzhou Branch	16,763,140.33	Land title was obtained in April 2012. Administration Committee of Economic Development Zone and Haima Company had requirement on the progress of the construction project and the project must be completed as planned. They required the construction project to commence before the application of relevant formalities to be started. The application of planning permit of construction project is in progress. Bidding file, construction permit, fire file, quality testing and project completion acceptance shall all be applied after receiving the planning permit of construction project. And the property ownership certificate is expected to be obtained at the end. In this issue, the newly added dormitory and canteen additional investment plan of the audited entity is under examination and approval.
New cooling channel workshop of branch casting and forging plant	1,837,095.85	Construction project investment is inconsistent with the main body of construction land. According to the current relevant provisions, it is impossible to handle the real property certificate, which is a historical legacy.
The factory buildings of the 100 thousand light diesel engines of the subsidiary, Jiangyan Power	17,242,358.77	The property right of that real estate has not been completed.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 19. Fixed assets (Continued)

##### (1) Original Value and Accumulated Depreciation of Fixed Assets (Continued)

##### c. Fixed assets with the property right certificate unprocessed yet (Continued)

Item	Book value	Reason for property right certificate not yet processed
Subsidiary transportation machinery plant and office building	14,207,452.50	The land was bought from Cijian Town People's Government Xin'an County in August 2004. According to the agreement signed by both two parties, land transfer fee, certificate fee and relevant taxes should all be included in the total price. However, during the application process for property ownership certificate, the developer refused to pay the taxes for deed and farmland occupation. With the unsuccessful negotiation with the developer, the enterprise cannot afford such a relatively large amount of taxes because of the consecutive business losses suffered in the recent years. Therefore, the property ownership certificate application is still in progress.
Subsidiary Xinjiang Company Base Project	58,233,572.52	The procedures for handling real estate licenses are not yet complete.
Branch heat treatment plant	7,261,211.14	New factory building, property right certificate is in the process of processing.
Cab workshop of branch body factory	87,707,262.64	New factory building, property right certificate is in the process of processing.
Total	<u>270,033,123.71</u>	

##### d. Other description of fixed assets:

The increase of depreciation in this period is RMB302,705,675.67. Among the above fixed assets, the original value of the fixed assets on which the accumulated depreciation was fully accrued and still in use continuously was RMB1,759,763,747.66. Refer to the statement in the Note 70 for detailed information about the ending balance of pledge on fixed assets.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 20. Construction in progress

Item	Ending balance	Beginning balance
Construction in progress	<b>232,816,443.52</b>	290,749,376.91
Total	<b>232,816,443.52</b>	290,749,376.91

#### (1) Details of construction in progress

Item	Ending balance			Beginning balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
New model application project of new wheeled tractor intelligent manufacturing	77,722,770.39		77,722,770.39	119,905,855.09		119,905,855.09
Intelligent Assembly Line Phase I of National Fourth Upgrading and Reconstruction Project	49,493,693.89		49,493,693.89	18,745,339.85		18,745,339.85
Reconstruction Project of Small and Medium Parts Molding Line	9,447,032.27		9,447,032.27	226,415.09		226,415.09
Pouring machine	6,070,408.17	-	6,070,408.17	5,976,068.55	-	5,976,068.55
Electrophoresis line	4,571,112.96	996,870.96	3,574,242.00	4,571,112.96		4,571,112.96
New giant parts workshop	4,316,930.94		4,316,930.94	3,346,057.15		3,346,057.15
User Service Training Workshop	4,097,620.97		4,097,620.97	3,262,294.24		3,262,294.24
Construction in progress in France	19,408,908.68	11,305,639.72	8,103,268.96	12,583,106.04	6,414,270.83	6,168,835.21
Automation renovation project of large-scale topcoat line	4,005,728.08		4,005,728.08	1,948,717.94		1,948,717.94
Core robot	3,608,127.71	-	3,608,127.71	3,230,769.23	-	3,230,769.23
New Production Line of Automatic Multipurpose Furnace	2,366,379.30		2,366,379.30			-
Plant foundation	2,206,437.39	2,206,437.39	-	2,206,437.39		2,206,437.39
Double disc cooler	2,064,941.86	-	2,064,941.86	1,771,538.37	-	1,771,538.37
Agricultural high-power diesel engine project	1,688,232.54		1,688,232.54	23,273,423.54		23,273,423.54
New Shaft Cover Line	1,664,102.60		1,664,102.60	1,664,102.60		1,664,102.60
Dormitory and canteen of Zhengzhou Branch	1,578,106.92		1,578,106.92	1,653,980.71		1,653,980.71
Improvement of Basic Support Service Ability of Traceability Transfer of Industry Measurement Value	1,404,855.78		1,404,855.78			-
Reinforcement of No.2 Workshop	1,236,484.93		1,236,484.93	450,450.45		450,450.45
Diesel auxiliary rollers and overturn turning	991,453.00		991,453.00	991,453.00		991,453.00
NC Quenching Machine Tool	487,140.00		487,140.00	-		-
Other	60,225,299.49	11,330,376.28	48,894,923.21	101,308,655.04	9,952,129.50	91,356,525.54
Total	<b>258,655,767.87</b>	<b>25,839,324.35</b>	<b>232,816,443.52</b>	<b>307,115,777.24</b>	<b>16,366,400.33</b>	<b>290,749,376.91</b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 20. Construction in progress (Continued)

##### (2) Details of significant changes of construction in progress

Project name	Beginning balance	Increase in this period	Transferred to fixed assets in this period	Decrease in this period	Ending balance
New model application project of new wheeled tractor intelligent manufacturing	119,905,855.09	56,647,613.75	91,728,433.83	7,102,264.62	77,722,770.39
Intelligent Assembly Line Phase I of National Fourth Upgrading and Reconstruction Project	18,745,339.85	30,748,354.04			49,493,693.89
Reconstruction Project of Small and Medium Parts Molding Line	226,415.09	9,220,617.18			9,447,032.27
Pouring machine	5,976,068.55	94,339.62	-	-	6,070,408.17
Electrophoresis line	4,571,112.96				4,571,112.96
New giant parts workshop	3,346,057.15	970,873.79			4,316,930.94
User Service Training Workshop	3,262,294.24	835,326.73			4,097,620.97
Construction in progress in France	12,583,106.04	10,752,991.43	3,643,710.22	283,478.57	19,408,908.68
Automation renovation project of large-scale topcoat line	1,948,717.94	2,057,010.14			4,005,728.08
Core robot	3,230,769.23	377,358.48	-	-	3,608,127.71
New Production Line of Automatic Multipurpose Furnace		2,366,379.30			2,366,379.30
Plant foundation	2,206,437.39				2,206,437.39
Double disc cooler	1,771,538.37	293,403.49	-	-	2,064,941.86
Agricultural high-power diesel engine project	23,273,423.54	670,140.59	20,279,742.14	1,975,589.45	1,688,232.54
New Shaft Cover Line	1,664,102.60				1,664,102.60
Dormitory and canteen of Zhengzhou Branch	1,653,980.71	1,578,106.92	1,653,980.71		1,578,106.92
Field operation quality and performance test verification of tractor unit		1,873,265.74	468,409.96		1,404,855.78
Reinforcement of No. 2 Workshop	450,450.45	786,034.48			1,236,484.93
Diesel auxiliary rollers and overturn turning	991,453.00				991,453.00
NC Quenching Machine Tool	-	487,140.00	-		487,140.00
Other	101,308,655.04	78,570,104.01	111,036,406.99	8,617,052.57	60,225,299.49
<b>Total</b>	<b>307,115,777.24</b>	<b>198,329,059.69</b>	<b>228,810,683.85</b>	<b>17,978,385.21</b>	<b>258,655,767.87</b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 20. Construction in progress (Continued)

##### (2) Details of significant changes of construction in progress (Continued)

Project name	Budget	Percentage of project investment to the budgeted amount (%)	Rate of progress (%)	Accumulated capitalization of interest	Including: capitalization of interest in this period	Rate of interest capitalization in this period (%)	Source of funds
New model application project of new wheeled tractor intelligent manufacturing	541,800,000.00	95.00	100.00				Raise independently
Intelligent Assembly Line Phase I of National Fourth Upgrading and Reconstruction Project	53,000,000.00	93.38	93.38				Raise independently
Reconstruction Project of Small and Medium Parts Molding Line	56,149,700.00	16.82	30.00				Raise independently
Pouring machine	7,960,000.00	87.84	90.00	-	-		Raise independently
Electrophoresis line	2,800,000.00	127.65	93.00				Raise independently
New giant parts workshop	97,000,000.00	100.00	100.00				Raise independently
User Service Training Workshop	8,902,400.00	100.00	100.00				Raise independently
Construction in progress in France	35,157,900.00	79.37	79.37				Raise independently
Automation renovation project of large-scale topcoat line	7,600,000.00	52.71	61.00				Raise independently
Core robot	4,500,000.00	84.00	90.00	-	-		Raise independently
New Production Line of Automatic Multipurpose Furnace	10,000,000.00	23.66	30.00				Raise independently
Plant foundation	3,268,000.00	100.00	68.00				Raise independently
Double disc cooler	1,800,000.00	100.00	90.00	-	-		Raise independently
Agricultural high-power diesel engine project	198,240,000.00	76.00	100.00	12,829,031.02			Raise funds
New Shaft Cover Line	7,000,000.00	23.77	23.77				Raise independently
Dormitory and canteen of Zhengzhou Branch	4,000,000.00	39.45	75.00				Raise independently
Field operation quality and performance test verification of tractor unit	9,500,000.00	18.00	18.00				Raise independently
Reinforcement of No.2 Workshop	1,500,000.00	82.43	82.43				Raise independently
Diesel auxiliary rollers and overturn turning	1,053,000.00	94.16	94.16				Raise independently
NC Quenching Machine Tool	811,900.00	60.00	60.00				Raise independently
Other	-	-	-	-	-		Raise independently, raise funds
Total				12,829,031.02			

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 20. Construction in progress (Continued)

(3) *Provision for impairment of construction in progress is included in this report period.*

Project name	Amount of provision in this period	The reason of provision
Basic Equipment Project	73,119.66	There are signs of impairment in this project
Layout optimization construction and security engineering	1,000.00	There are signs of impairment in this project
SG workshop transformation and relocation project	84,529.92	There are signs of impairment in this project
Daylighting and Brightening Reform	74,525.53	There are signs of impairment in this project
Forging Crankshaft Machining Line Project	154,282.44	There are signs of impairment in this project
Technology Project of Joint Stock Company	263,467.17	There are signs of impairment in this project
Electrophoretic line	996,870.96	There are signs of impairment in this project
Machinery workshop	485,000.00	There are signs of impairment in this project
Plant Foundation – Reserved Land	2,206,437.39	There are signs of impairment in this project
Construction in progress in France	4,840,455.79	There are signs of impairment in this project
Capital Maintenance Office	318,011.00	There are signs of impairment in this project
Construction in progress of Shentong	50,045.00	There are signs of impairment in this project
Others	70,946.06	There are signs of impairment in this project
Total	<u>9,618,690.92</u>	

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**21. Intangible assets**

**(1) Detail spreadsheet of intangible assets**

Item	Land use right	Patents	Others	Software	Trademarks	Total
I. Original book balance						
1. Beginning balance	910,924,304.91	4,225,658.17	10,857,273.77	67,954,573.85	59,526,000.00	1,053,487,810.70
2. Increase amount in this period	-	1,383,925.57	89,765.38	14,585,120.68	-	16,058,811.63
Purchase	-	650,122.65	43,036.40	14,585,120.68	-	15,278,279.73
Others	-	733,802.92	46,728.98	-	-	780,531.90
3. Decrease amount in this period	-	-	957,823.99	246.25	-	958,070.24
Others	-	-	957,823.99	246.25	-	958,070.24
4. Ending balance	910,924,304.91	5,609,583.74	9,989,215.16	82,539,448.28	59,526,000.00	1,068,588,552.09
II. Accumulated amortization						
1. Beginning balance	139,458,978.51	4,039,730.37	2,939,704.19	47,328,307.97	-	193,766,721.04
2. Increase amount in this period	23,606,587.87	648,663.56	872,086.03	6,384,346.90	-	31,511,684.36
Provision	23,606,587.87	619,983.83	857,285.22	6,384,346.90	-	31,468,203.82
Others	-	28,679.73	14,800.81	-	-	43,480.54
3. Decrease amount in this period	-	-	138,262.00	19.86	-	138,281.86
Disposal	-	-	138,262.00	19.86	-	138,281.86
Others	-	-	138,262.00	19.86	-	138,281.86
4. Ending balance	163,065,566.38	4,688,393.93	3,673,528.22	53,712,635.01	-	225,140,123.54
III. Impairment provision						
1. Beginning balance	-	-	-	-	-	-
2. Increase amount in this period	-	633,515.33	-	477,922.22	-	1,111,437.55
Provision	-	633,515.33	-	477,922.22	-	1,111,437.55
3. Decrease amount in this period	-	-	-	-	-	-
4. Ending balance	-	633,515.33	-	477,922.22	-	1,111,437.55
IV. Book value						
1. Ending balance of book value	747,858,738.53	287,674.48	6,315,686.94	28,348,891.05	59,526,000.00	842,336,991.00
2. Beginning balance of book value	771,465,326.40	185,927.80	7,917,569.58	20,626,265.88	59,526,000.00	859,721,089.66

**(2) Explanation of intangible assets**

N/A

**(3) No land use right without property right certificate**

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 22. Development expenditure

Item	Beginning balance	Increase in this period		Decrease in this period		Ending balance
		Internal development expenditure	others	Transfer to current period profit or loss	Recognized as intangible assets	
Updates on accessories and R&D on other machinery products		32,772,074.44		32,772,074.44		
Research and development for dynamical machinery products		87,100,457.54		87,100,457.54		
Technological process research and development		43,612,434.66		43,612,434.66		
Fundamental research		12,111,880.77		12,111,880.77		
Research and development of tractor products		202,797,292.87		202,797,292.87		
Total		<u>378,394,140.28</u>		<u>378,394,140.28</u>		

#### 23. Goodwill

##### (1) Original value of goodwill

Name of invested company	Beginning balance	Increase in this period		Decrease in this period		Ending balance
		Formed from business combination	Others	Disposal	Others	
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	14,297,893.81					14,297,893.81
Total	<u>14,297,893.81</u>					<u>14,297,893.81</u>

##### (2) Impairment provision for goodwill

Name of invested company	Beginning balance	Increase in this period		Decrease in this period		Ending balance
		Provision	Others	Disposal	Others	
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	14,297,893.81					14,297,893.81
Total	<u>14,297,893.81</u>					<u>14,297,893.81</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 24. Long-term deferred expenses

Item	Beginning balance	Increase in this period	Amortization in this period	Other decrease in this period	Ending balance
Patent use right	39,173.78		21,367.52		<b>17,806.26</b>
Amortization of equipment relocation expenses	1,913,178.45		212,575.44		<b>1,700,603.01</b>
Mold amortization	34,482,154.73	8,065,091.03	13,544,426.31	117,948.72	<b>28,884,870.73</b>
Amortization of maintenance expenditure	8,799,991.53	3,368,159.89	2,403,398.72		<b>9,764,752.70</b>
Others	788,742.23	460,879.96	380,498.59		<b>869,123.60</b>
Total	<u>46,023,240.72</u>	<u>11,894,130.88</u>	<u>16,562,266.58</u>	<u>117,948.72</u>	<u><b>41,237,156.30</b></u>

Explanation of long-term deferred expenses: other reductions were mainly due to the disposal of moulds in the current period.

#### 25. Deferred tax assets and deferred tax liabilities

##### (1) Deferred tax assets recognized

Item	Ending balance		Beginning balance	
	Deductible temporary difference	Deferred tax asset	Deductible temporary difference	Deferred tax asset
Provision for asset impairment	152,095,358.97	26,699,960.09	42,871,642.47	7,234,185.49
Deductible losses	19,278,438.13	6,361,884.58	250,130,732.03	82,543,141.57
Termination welfare	197,070,575.41	31,621,061.64	9,870,196.45	1,612,564.25
Wages payable and accrued expense	187,044,843.88	40,438,463.49	120,829,754.03	25,751,177.53
Deferred revenue	135,810,438.25	20,371,565.74	127,277,099.43	19,091,564.92
Changes in fair value of trading financial assets	4,500.00	1,125.00		
Total	<u>691,304,154.64</u>	<u>125,494,060.54</u>	<u>550,979,424.41</u>	<u>136,232,633.76</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 25. Deferred tax assets and deferred tax liabilities (Continued)

##### (2) Deferred tax liabilities recognized

Item	Ending balance		Beginning balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Asset evaluation increase from business combination not under same control	106,905,076.77	26,726,269.19	114,967,265.72	28,741,816.43
Valuation of trading financial instruments	695,048,275.13	104,257,241.27	695,894,217.27	104,384,132.59
Total	<u>801,953,351.90</u>	<u>130,983,510.46</u>	<u>810,861,482.99</u>	<u>133,125,949.02</u>

##### (3) Deductible temporary difference that are not recognized as deferred tax assets

Item	Ending balance	Beginning balance
Provision for asset impairment	1,240,154,957.60	770,247,022.91
Deductible losses	2,070,357,573.48	496,827,421.43
Total	<u>3,310,512,531.08</u>	<u>1,267,074,444.34</u>

##### (4) Deductible losses unrecognized as deferred tax assets due in the following year

Year	Ending balance	Beginning balance	Remark
Year of 2018		70,882,355.67	
Year of 2019	81,990,879.86	81,717,974.47	
Year of 2020	288,422,449.61	107,226,932.05	
Year of 2021	145,618,595.54	100,293,076.72	
Year of 2022	151,786,197.65	58,145,660.84	
Year of 2023	174,887,409.41		
Year of 2024	-	11,053,782.76	
Year of 2025	-	10,175,815.34	
Year of 2026	4,540,249.64	11,816,809.85	
Year of 2027	91,795,402.69	45,515,013.73	
Year of 2028	1,131,316,389.08		
Total	<u>2,070,357,573.48</u>	<u>496,827,421.43</u>	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 26. Short-term borrowings

(1) *Classification of borrowings*

Item	Ending balance	Beginning balance
Mortgaged loans	70,000,000.00	70,000,000.00
Credit loans	2,707,516,101.13	1,963,879,689.22
Total	<u>2,777,516,101.13</u>	<u>2,033,879,689.22</u>

*Explanation of short-term loans*

The subsidiary of the Group, Changtuo Agricultural Machinery Equipment Group Co., Ltd. drawn short-term loan of RMB70,000,000 from Jilin Bank Dong Sheng Branch. The period will be extended after maturity, with an annual interest rate of 6.525% and a maturity date of 30 November 2019.

#### 27. Absorption of deposits and interbank deposits

Item	Ending balance	Beginning balance
Demand deposit	545,421,025.68	229,663,863.41
Including: Corporate	542,226,691.92	229,478,533.87
Individuals	3,194,333.76	185,329.54
Time deposit (including notice deposit)	535,103,828.35	550,531,665.33
Including: Corporate	535,103,828.35	550,531,665.33
Individuals		
Total	<u>1,080,524,854.03</u>	<u>780,195,528.74</u>

#### 28. Deposits from banks and other financial institutes

Item	Ending balance	Beginning balance
Deposits from banks		
Deposits from non-bank financial institutions		300,000,000.00
Total		<u>300,000,000.00</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 29. Derivative financial liabilities

Item	Ending balance	Beginning balance
Currency forward and swap	<u>2,727,592.84</u>	<u>12,800,000.00</u>
Total	<u><u>2,727,592.84</u></u>	<u><u>12,800,000.00</u></u>

*Note:* This year, the Group borrowed 70 million US dollars from Luoyang Branch of Bank of Communications Co., Ltd. and 30 million US dollars from Luoyang Branch of China Construction Bank Co., Ltd. Both loans were submitted to the bank for currency swap transactions, and principal and interest rate swaps were implemented. According to the provisions <Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments>, when a company becomes a party to a financial instrument contract, it should recognize a financial asset or financial liability. Therefore, the Group recognizes this financial instrument as a derivative financial liability.

#### 30. Notes payable and accounts payable

Item	Ending balance	Beginning balance
Notes payable	<u>958,616,789.34</u>	820,501,598.94
Accounts payable	<u>1,194,829,925.57</u>	<u>1,465,330,454.31</u>
Total	<u><u>2,153,446,714.91</u></u>	<u><u>2,285,832,053.25</u></u>

##### (1) Notes payable

Types of notes	Ending balance	Beginning balance
Bank acceptance notes	<u>929,393,127.79</u>	759,850,627.14
Commercial acceptance notes	<u>29,223,661.55</u>	<u>60,650,971.80</u>
Total	<u><u>958,616,789.34</u></u>	<u><u>820,501,598.94</u></u>

The total amount of unpaid notes payable at the end of this period is RMB404,197.83.

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**30. Notes payable and accounts payable (Continued)**

**(2) Accounts payable**

Item	Ending balance	Beginning balance
Purchase payable	1,116,711,556.82	1,353,217,785.45
Purchase of construction equipment payable	65,193,459.38	76,968,976.12
Service payment payable	11,507,463.92	21,953,786.89
Others	1,417,445.45	13,189,905.85
Total	<u>1,194,829,925.57</u>	<u>1,465,330,454.31</u>

a. Accounts payable with significant amount aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
Hong Kong LLAFF INTERNATIONAL CO., LTD	<u>9,036,166.87</u>	Unsettled
Total	<u>9,036,166.87</u>	

b. Explanation of accounts payable: N/A

**31. Advance from customers**

Item	December 31, 2017
Within 1 year (including 1 year)	203,384,149.97
Over 1 year	32,836,818.63
Total	<u>236,220,968.60</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 32. Contractual liability

##### (1) Contractual liability

Item	Ending balance	Beginning balance
Payment for goods	369,490,638.57	236,220,968.60
Total	369,490,638.57	236,220,968.60

##### (2) Aging analysis of contractual liability

Item	Ending balance	Beginning balance
Within 1 year (including 1 year)	341,860,503.30	203,384,149.97
Over 1 year	27,630,135.27	32,836,818.63
Total	369,490,638.57	236,220,968.60

##### (3) Significant amounts of advance from customers aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
Poly Technology Co., Ltd.	4,291,619.50	Unsettled
Jiangxi Wangshi Zhifang Industrial Co., Ltd.	1,990,000.00	Unsettled
Shaanxi Linfeng Construction Machinery Co., Ltd.	1,383,299.70	Unsettled
Keshan Oriental Agricultural Machinery Co., Ltd.	1,367,470.83	Unsettled
Wuyuan Jinhe Industry and Trade Co., Ltd.	1,312,310.70	Unsettled
Total	10,344,700.73	

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**33. Employee benefits payable**

**(1) Classification of employee benefits payable**

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance
Short-term remuneration	95,709,139.98	968,025,630.52	971,229,442.37	<b>92,505,328.13</b>
Post-employment welfare – Defined contribution plan	2,210,656.30	140,791,029.51	141,127,473.95	<b>1,874,211.86</b>
Termination welfare	25,601,717.01	128,799,386.95	59,293,796.99	<b>95,107,306.97</b>
Total	<u>123,521,513.29</u>	<u>1,237,616,046.98</u>	<u>1,171,650,713.31</u>	<u><b>189,486,846.96</b></u>

**(2) Short-term remuneration**

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance
Wages or salaries, bonuses, allowances and subsidies	63,175,087.43	677,573,348.45	679,394,972.70	<b>61,353,463.18</b>
Staff welfare expense	4,118,142.65	65,589,055.20	69,707,197.85	–
Social insurance expense	513,195.02	59,791,564.19	59,794,827.65	<b>509,931.56</b>
Including: Medical insurance expense	453,336.86	52,646,449.86	52,611,899.75	<b>487,886.97</b>
Work-related injury insurance	38,479.91	4,073,338.43	4,113,280.82	<b>-1,462.48</b>
Maternity insurance	21,378.25	3,071,775.90	3,069,647.08	<b>23,507.07</b>
Housing funds	2,673,367.81	59,882,477.30	60,848,986.73	<b>1,706,858.38</b>
Union & employee education funds	24,924,193.78	23,111,837.63	19,478,450.06	<b>28,557,581.35</b>
Others	305,153.29	82,077,347.75	82,005,007.38	<b>377,493.66</b>
Total	<u>95,709,139.98</u>	<u>968,025,630.52</u>	<u>971,229,442.37</u>	<u><b>92,505,328.13</b></u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 33. Employee benefits payable (Continued)

##### (3) Defined contribution plan

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance
Basic endowment insurance	1,232,358.74	124,170,140.58	124,077,785.38	<b>1,324,713.94</b>
Unemployment insurance premium	29,929.71	4,558,140.80	4,554,973.03	<b>33,097.48</b>
Enterprise annuity payment	948,367.85	12,062,748.13	12,494,715.54	<b>516,400.44</b>
Total	<u>2,210,656.30</u>	<u>140,791,029.51</u>	<u>141,127,473.95</u>	<u><b>1,874,211.86</b></u>

The explanation of defined contribution plan: the Group participates in the social insurance plans set up by the government according to the provisions. According to the plan, the Group pays the costs of such plans according to the relevant provisions of the local government. In addition to the above charges paid, the Group no longer undertakes the further payment obligations. The corresponding expenditure is recognized into the current period profit or loss, or the cost of the related assets when incurred.

The Group shall pay RMB140,791,029.51 to the participating set-up withdrawal plan in this year (RMB153,698,971.52 in 2017). On December 31, 2018, the Group still has depositable charges of RMB1,874,211.86 (RMB2,210,656.30 on December 31, 2017) which are due and unpaid during the reporting period. The relevant depositable charges have been paid after the reporting period.

#### 34. Taxes payable

Item	Ending balance	Beginning balance
Value-added tax (VAT)	<b>1,927,845.86</b>	2,285,941.96
Enterprise income tax	<b>13,531,121.03</b>	2,969,764.17
Individual income tax	<b>1,838,143.14</b>	4,856,580.72
Urban maintenance and construction tax	<b>50,093.18</b>	134,047.47
Property tax	<b>4,869,814.98</b>	4,508,683.32
Land use tax	<b>1,944,810.35</b>	1,697,953.13
Education surcharge	<b>39,716.89</b>	95,747.85
Other taxes	<b>360,988.85</b>	812,601.28
Total	<u><b>24,562,534.28</b></u>	<u>17,361,319.90</u>

Explanation of taxes payable: N/A

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**35. Other payable**

Item	Ending balance	Beginning balance
Interest payable	20,514,340.13	61,862,938.69
Dividends payable	8,273,287.83	55.83
Other payables	283,833,498.25	276,121,409.06
Total	<u>312,621,126.21</u>	<u>337,984,403.58</u>

**(1) Interests payable**

Item	Ending balance	Beginning balance
Interest payable on corporate bonds		50,334,301.22
Interests payable on bank loans	14,821,136.37	3,078,130.20
Interests payable on deposits absorbed	5,693,203.76	8,450,507.27
Total	<u>20,514,340.13</u>	<u>61,862,938.69</u>

**(2) Dividends payable**

Item	Ending balance	Beginning balance	Reasons for non-payment for more than one year
Natural person shareholders	8,273,287.83	55.83	
Total	<u>8,273,287.83</u>	<u>55.83</u>	

Explanation of dividends payable: Brilliance China Machinery Holding Co., Ltd., a subsidiary of the Group, distributes the unpaid portion of the dividend.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 35. Other payable (Continued)

##### (3) Other payables

##### a. Classification of other payables by nature

Nature of payment	Ending balance	Beginning balance
Receivables and payments between companies	77,057,903.01	86,468,102.96
Cash pledge and deposits	65,146,997.86	63,036,461.77
Expenses payable	87,941,079.14	77,300,212.31
Collection and payment on behalf of others	25,026,537.30	25,898,311.64
Others	28,660,980.94	23,418,320.38
Total	<u>283,833,498.25</u>	<u>276,121,409.06</u>

##### b. Significant amount of other payables aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
YTO Group Corporation	51,740,699.34	Unsettled
Funds for housing construction and maintenance	2,524,414.33	Unsettled
Total	<u>54,265,113.67</u>	

##### c. Explanation of other payables:

N/A

#### 36. Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term loans due within 1 year	60,000,000.00	9,752,875.00
Bonds payable due within 1 year		1,499,228,820.52
Deferred revenues due within 1 year	16,664,479.21	13,058,479.21
Total	<u>76,664,479.21</u>	<u>1,522,040,174.73</u>

Explanation of non-current liabilities: N/A

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

## VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

### 37. Other current liabilities

Item	Ending balance	Beginning balance
Discount and allowance	101,991,553.31	58,600,777.57
Warranty fee for 3 after sale services included	82,271,658.28	28,426,282.13
Agent service fees	2,600,000.00	1,716,981.13
Transportation fee	4,930,950.00	8,071,390.00
Others	4,344,880.61	1,027,038.50
	<u>196,139,042.20</u>	<u>97,842,469.33</u>
Total	<u>196,139,042.20</u>	<u>97,842,469.33</u>

### 38. Long-term loans

#### (1) Classification of loans

Classification of loans	Ending balance	Beginning balance
Guarantee loan	78,473,000.00	39,011,500.00
Credit loans	850,000,000.00	659,752,875.00
Subtotal	928,473,000.00	698,764,375.00
Less: due within 1 year	60,000,000.00	9,752,875.00
Including: credit loans	60,000,000.00	9,752,875.00
Due after 1 year	868,473,000.00	689,011,500.00
	<u>868,473,000.00</u>	<u>689,011,500.00</u>

#### (2) Due date analysis of long-term loans

Due date	Ending balance	Beginning balance
Over than 1 year after the balance sheet date, but not over than 2 years	629,236,500.00	60,000,000.00
Over than 2 years after the balance sheet date, but not over than 5 years	239,236,500.00	629,011,500.00
Over 5 years		0.00
	<u>868,473,000.00</u>	<u>689,011,500.00</u>
Total	<u>868,473,000.00</u>	<u>689,011,500.00</u>

Explanation of long-term loans:

Guarantee loan: YTO France SAS, a subsidiary of the Group, is guaranteed by the Company to borrow 10,000,000.00 Euros from the Paris Branch Bank of China Construction Bank Limited, amounting to RMB78,473,000.00. Borrowing rate is Euro Interbank Offer Rate.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 39. Bonds payable

(1) *Classification of bonds payable*

Item	Ending balance	Beginning balance
12 YTO 01 Corporate Debt		799,792,232.47
12 YTO 02 Corporate Debt		699,436,588.05
Less: Bonds payable at one year's maturity		1,499,228,820.52
Total		0.00

#### 40. Long-term accounts payable

Item	Ending balance	Beginning balance
Long-term loans from non-financial institutions	8,971,437.07	
Total	8,971,437.07	

Explanation of long-term accounts payable:

YTO AGRO-INDUSTRIAL, an offshore subsidiary of the Group, signed a supplementary agreement with the Ivorian government which stipulates that XOF 750,120,156.00 (RMB8,971,437.07 yuan at the end of the period) of the transfer loan from the government of YITWO AGRO-INDUSTRIAL in CYD Ivory Coast in 1997 has not been repaid, and the repayment can be postponed until 2024.

#### 41. Long-term salary payable

Item	Ending balance	Beginning balance
Long-term dismissal benefits	166,727,294.53	
Less: Non-discounted long-term payable remuneration for employees whose long-term dismissal benefits expire within one year	47,011,409.25	
Total	119,715,885.28	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 42. Estimated liabilities

Item	Ending balance	Beginning balance	Reason for occurring
Pending litigation	1,120,000.00		<i>Note 1</i>
Other	2,861,625.85	13,699,471.42	<i>Note 2</i>
Total	<u>3,981,625.85</u>	<u>13,699,471.42</u>	

*Note 1:* Natural person Feng Chuanhai and the Company's auto body factory are in dispute over compensation for personal injury caused by traffic accidents. The Group's estimated compensation amount is RMB1,120,000.00.

*Note 2:* In 2017, when the sale of YTO (Luoyang) Forklift Co., Ltd. was formed, part of the payment was made in the current period, and the balance was not yet paid.

#### 43. Deferred revenue

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance	Reason
Government subsidies related assets	151,353,332.74	2,750,000.00	20,017,136.97	134,086,195.77	Refer to chart 1
Government subsidies related benefit	33,306,808.39	23,990,803.00	22,023,210.53	35,274,400.86	Refer to chart 1
Total	<u>184,660,141.13</u>	<u>26,740,803.00</u>	<u>42,040,347.50</u>	<u>169,360,596.63</u>	Refer to chart 1

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 43. Deferred revenue (Continued)

##### (1) Item of government grants

Item of government grants	Beginning balance	Increase of subsidy in this period	Amount recognized as non-operating income in this period	Other changes	Ending balance	Related to assets/related to income
"Heluo artisans" talent team construction funds	100,000.00	100,000.00	200,000.00		-	Related to income
Industrial revitalization and technological transformation	11,000,000.00			2,200,000.00	<b>8,800,000.00</b>	Related to income
Key Technology and Equipment for Precision Forming of Large Digital Dieless Casting		702,400.00			<b>702,400.00</b>	Related to income
Mechanical industry measurement value traceability transmission basic support service capacity improvement	4,750,000.00				<b>4,750,000.00</b>	Related to income
Integration and demonstration application of agricultural machine navigation operation technology based on Beidou	-	1,767,380.00	152,936.99		<b>1,614,443.01</b>	Related to income
Zombie Enterprise Subsidies		8,958,823.00	8,958,823.00			Related to income
Agricultural machinery intelligent control technology research and development	2,040,000.00		2,040,000.00		-	Related to income
Research on key technologies of clean and combustion of agricultural diesel engine	280,000.00		10,566.51		<b>269,433.49</b>	Related to income
Research on control of agricultural machinery exhaust aftertreatment system and key technologies of OBD	705,000.00	130,100.00	200,773.57		<b>634,326.43</b>	Related to income
Agricultural machinery pollution emission control technology and system research	1,118,003.09	240,000.00	98,373.12		<b>1,259,629.97</b>	Related to income
Key Technology Research and Machine Development of Hilly Mountain Tractor	1,209,363.92	380,000.00	569,625.55		<b>1,019,738.37</b>	Related to income
Research and system development of reliability testing technology for tractor	1,322,407.76	1,252,300.00	1,099,656.82		<b>1,475,050.94</b>	Related to income
Research on Field Operation Quality and Test Performance Verification Technology of Tractor Unit	644,079.27	559,700.00	613,171.77		<b>590,607.50</b>	Related to income
Research and System Development of Tractor Inspection Technology	499,000.00	380,000.00	118,274.53		<b>760,725.47</b>	Related to income
Tractor Test Environment Warehouse and Complete Comprehensive Verification Platform	-	3,000,000.00			<b>3,000,000.00</b>	Related to income
Research on Fault Warning and Remote Diagnosis Technology for Tractor Operation Information Collection	-	1,048,200.00	264,270.53		<b>783,929.47</b>	Related to income
Development of key core components for new energy-saving and environmentally	1,658,222.92	700,000.00	847,218.99		<b>1,511,003.93</b>	Related to income

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 43. Deferred revenue (Continued)

##### (1) Item of government grants (Continued)

Item of government grants	Beginning balance	Increase of subsidy in this period	Amount recognized as non-operating income in this period	Other changes	Ending balance	Related to assets/ related to income
Research and Application of New Wear-resistant Metal Material in Agricultural Machinery Equipment	-	2,000,000.00	438,921.97		1,561,078.03	Related to income
Development of Intelligent Electric Tractor	316,894.50	95,000.00	17,275.56		394,618.94	Related to income
Application research of intelligent design platform in the development of high power tractor	931,754.86	876,900.00	828,759.85		979,895.01	Related to income
Intelligent tractor positioning and remote monitoring system	950,000.00	50,000.00	1,000,000.00		-	Related to income
Medium power energy-saving and environmentally friendly agricultural diesel engine integrated development and machine matching	5,363,217.84	1,750,000.00	1,945,697.54		5,167,520.30	Related to income
Equipment complex parts personalized rapid customization intelligent manufacturing new model demonstration verification	418,864.23	-	418,864.23		-	Related to income
C Series Government Project Grant	2,148,000.00	-	-	716,000.00	1,432,000.00	Related to assets
Special funds for urban security housing projects	8,352,000.00	-	-	288,000.00	8,064,000.00	Related to assets
High-power non-road diesel engine	49,000,000.00	-	4,900,000.00	4,900,000.00	39,200,000.00	Related to assets
Energy-saving and environmentally friendly diesel engine crankshaft	3,735,000.00	-		540,000.00	3,195,000.00	Related to assets
Annual production of 1000 high-power power shift heavy-duty wheel tractors	2,125,000.00	2,750,000.00		1,125,000.00	3,750,000.00	Related to assets
Improve independent research and development capabilities	13,351,314.83			1,322,826.13	12,028,488.70	Related to assets
Modern agricultural equipment smart cockpit digital factory	7,000,000.00	-			7,000,000.00	Related to assets
New wheeled tractor core capacity improvement	41,109,090.90	-		4,836,363.64	36,272,727.26	Related to assets
New wheeled tractor intelligent manufacturing new model application	11,900,000.00	-			11,900,000.00	Related to assets
Key product testing platform	12,500,524.60			1,388,947.20	11,111,577.40	Related to assets
Other changes	132,402.41	-			132,402.41	Related to assets
<b>Total</b>	<b>184,660,141.13</b>	<b>26,740,803.00</b>	<b>24,723,210.53</b>	<b>17,317,136.97</b>	<b>169,360,596.63</b>	—

In the current period of the current profit and loss, the other income is RMB15,764,387.53 and the government subsidy of RMB8,958,823.00 is included in the non-operating income.

Other changes is the amount of reclassification to non-current liabilities due within one year.

(2) Explanation of deferred revenue: N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 44. Share capital

Item	Beginning balance	Issue new stock	Changes in current period(+, -)			Subtotal	Ending balance
			Bonus share	Equity fund transferred into shares	Others		
Total amount of shares	985,850,000.00	-	-	-	-	985,850,000.00	

Explanation of share capital: No change in equity in the current period.

#### 45. Capital reserve

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance
Capital stock premium	1,851,848,375.56			1,851,848,375.56
Others capital reserve	247,784,237.55	7,044.78		247,791,282.33
Total	2,099,632,613.11	7,044.78		2,099,639,657.89

Explanation of capital reserve: When Yang Limited Company absorbed its parent company YTO (Jiangyan) Power Machinery Co., Ltd. which is the subsidiary of the Group, the minority shareholder of Yang Limited Company abandoned the formation of minority shareholders' rights and interests of Taizhou Jiangyan Industrial Asset Management Co., Ltd.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 46. Other comprehensive income

Item	Beginning balance	Before income tax amount incurred in this period	Less: recognized into other comprehensive income in prior period and transferred into current period profit or loss	Amount incurred in this period			Less: Change and re measure the changes in the net liabilities or net assets of the beneficiary	Ending balance
				Less: Income tax expense	Attributable to the parent company after tax	Attributable to the minority shareholders after tax		
Other comprehensive income that will be subsequently reclassified to profit and loss	-16,268,084.50	-509,964.75			-595,491.68	85,526.93		-16,863,576.18
1. Exchange differences from retranslation of foreign currency financial statements	-16,268,084.50	-509,964.75			-595,491.68	85,526.93		-16,863,576.18
Total other comprehensive income	-16,268,084.50	-509,964.75			-595,491.68	85,526.93		-16,863,576.18

#### 47. Special reserves

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance
Safety production expense	3,674,350.81	11,858,142.62	12,258,486.92	3,274,006.51
Total	3,674,350.81	11,858,142.62	12,258,486.92	3,274,006.51

#### 48. Surplus reserve

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance
Statutory surplus reserve	441,329,741.16			441,329,741.16
Discretionary surplus reserve	771,431.00			771,431.00
Total	442,101,172.16			442,101,172.16

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 49. General risk reserves

Item	Beginning balance	Increase in this period	Decrease in this period	Ending balance
General risk reserves	12,754,318.98		12,754,318.98	0.00

The changes of General Risk Reserve is due to China YTO Group Finance Co., Ltd., a subsidiary company of the Group, which charges back all the risk reserve at the end of the period.

#### 50. Retained earnings

Item	Current year	Percentage of accrual or distribution (%)
Beginning balance of retained earnings before adjustment	1,273,219,846.84	-
Total amount of adjustment on beginning balance of retained earnings	507,215,011.34	-
Beginning balance of retained earnings after adjustment	1,780,434,858.18	-
Add: Net profit for the year attributable to shareholders of the parent company	-1,300,108,773.92	-
Less: Appropriation of the statutory surplus reserve		
Appropriation of discretionary surplus reserve		
Appropriation of reserve fund		
Venture expansion fund		
Profit Return Investments		
Employee Benefits Fund		
Provision of general risk reserves	-12,754,318.98	
Common stock dividends payable		
Common dividends converted to equity		
Preferred Dividend		
Other Distributions to Shareholders		
Profit Return Investments		
Other Profit Distribution		
Add: Surplus reserve to compensate for losses		
Carry-over recount changes in net liabilities or net assets of Beneficiary Plan		
Carry-over of Other Comprehensive Income		
Other Internal Carry-over of Owner's Rights and Interests		
Ending balance of this period	493,080,403.24	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 50. Retained earnings (Continued)

**(1) Explanation for adjustment of undistributed profits at the beginning of the period**

Due to the change of accounting policy, the undistributed profit at the beginning of the impact period was RMB507,215,011.34. Details in IV Note 34 Changes in significant accounting policies.

**(2) Other explanations of undistributed profits**

N/A

#### 51. Operating revenue and operating costs

Item	Amount incurred in this period		Amount incurred in last period	
	Income	Cost	Income	Cost
Main business	5,462,527,267.10	5,054,131,616.37	7,151,937,360.11	6,002,833,313.88
Other business	78,471,126.16	44,293,991.44	67,373,026.00	33,171,317.99
Total	<u>5,540,998,393.26</u>	<u>5,098,425,607.81</u>	<u>7,219,310,386.11</u>	<u>6,036,004,631.87</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 52. Net interest income

Item	Cumulative amount in this period	Cumulative amount in last period
<b>Interest income</b>	<b>138,092,137.95</b>	137,931,789.75
Including: From deposits in other banks	<b>65,263,719.47</b>	77,908,377.42
From deposits in central bank	<b>4,384,859.73</b>	4,556,068.60
Lending funds	<b>17,014,055.44</b>	9,622,388.79
Loans and advances granted	<b>49,635,928.81</b>	38,261,617.69
Including: Individual loans and advances	<b>1,321,005.44</b>	145,823.41
Corporate loans and advances	<b>42,241,286.62</b>	32,897,198.60
Notes discounting	<b>6,073,636.75</b>	5,218,595.68
Buying back the sale of financial assets	<b>1,793,574.50</b>	7,583,337.25
<b>Interest expense</b>	<b>12,455,994.16</b>	15,819,471.26
Including: From deposits in other banks		
From deposits in central bank		
Deposits from banks and other financial institutes	<b>981,068.06</b>	325,845.14
Deposits adsorption	<b>11,474,926.10</b>	15,493,626.12
Sale of repurchase financial assets		
Others		
Net interest income	<b>125,636,143.79</b>	122,112,318.49

#### 53. Fees and net commission income

Item	Amount in this period	Amount in last period
Fees and commission income	<b>2,457,005.47</b>	702,015.03
Clearing and settlement fees	<b>32,497.87</b>	36,372.05
Agent fees	<b>333,066.05</b>	152,169.83
Credit commitment fees and commissions	<b>122,874.60</b>	224,875.65
Others	<b>1,968,566.95</b>	288,597.50
Fees and commission expense	<b>405,617.87</b>	301,278.51
Service fee expense	<b>405,617.87</b>	301,278.51
Commission expense		
Fees and net commission income	<b>2,051,387.60</b>	400,736.52

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**54. Taxes and surcharges**

<b>Item</b>	<b>Amount in this period</b>	Amount in last period
Urban maintenance and construction tax	<b>2,636,063.51</b>	4,900,431.24
Education surcharge	<b>1,866,688.99</b>	3,510,871.59
Property tax	<b>22,081,198.10</b>	19,995,191.73
Land use tax	<b>13,627,050.07</b>	10,092,454.96
Vehicle and vessel usage tax	<b>131,993.88</b>	146,691.95
Stamp duty	<b>4,919,993.86</b>	6,268,151.35
Others	<b>745,070.09</b>	804,909.49
	<hr/>	<hr/>
Total	<b>46,008,058.50</b>	45,718,702.31
	<hr/> <hr/>	<hr/> <hr/>

**55. Selling expenses**

<b>Item</b>	<b>Amount in this period</b>	Amount in last period
Transportation expenses	<b>125,026,580.76</b>	146,443,724.91
Sales service fees	<b>175,749,981.23</b>	116,930,251.91
Employee compensation	<b>83,350,466.65</b>	86,348,371.95
Advertising fees	<b>12,270,983.18</b>	14,596,617.19
Packing expenses	<b>11,962,284.11</b>	9,312,494.82
Exhibition expenses	<b>5,705,370.43</b>	6,515,826.17
Depreciation expenses	<b>995,721.63</b>	665,667.19
Insurance expenses	<b>5,815,645.94</b>	4,565,268.14
Others	<b>40,989,141.57</b>	50,633,493.12
	<hr/>	<hr/>
Total	<b>461,866,175.50</b>	436,011,715.40
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 56. Administrative expenses

Item	Amount in this period	Amount in last period
Employee compensation	257,956,213.46	240,225,721.98
Depreciation expenses	58,217,668.24	48,412,981.24
Repair expense	40,736,305.70	44,093,941.76
Amortization of intangible assets	25,828,076.52	25,689,581.10
Rent fees	19,325,508.94	15,978,164.47
Termination benefits	248,515,272.23	29,768,651.92
Office fee	5,573,823.85	8,649,982.18
Business entertainment expense	5,564,223.52	6,250,761.43
Conference fee	4,759,348.55	7,627,279.11
Travel expenses	4,233,824.48	4,999,441.87
Intermediary fees for employment	3,930,750.76	3,255,463.75
Litigation costs	2,775,237.63	2,619,045.82
Consultation fee	2,516,459.99	5,017,439.10
Insurance premium	1,054,418.75	1,058,619.01
Others	83,210,918.67	59,674,273.42
Total	<u>764,198,051.29</u>	<u>503,321,348.16</u>

Explanation of administrative expenses: The management fee increased by RMB260,876,703.13 compared with the previous period. The main reason is that the Group has carried out the redundancy benefits for the current year.

#### 57. R & D expenses

Item	Amount in this period	Amount in last period
Employee compensation	157,849,524.59	161,760,099.86
Depreciation expenses	45,101,147.10	43,289,222.13
Material cost	110,500,301.22	138,651,067.12
Test and Inspection Fee	5,417,103.22	5,162,486.13
Design fee	16,816,545.68	1,833,475.10
Others	42,709,518.47	35,643,088.83
Total	<u>378,394,140.28</u>	<u>386,339,439.17</u>

Explanation of R & D expenses: N/A

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

## VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

### 58. Finance expenses

Item	Amount in this period	Amount in last period
Interest expense	157,621,838.19	143,484,453.52
Less: Interest income	36,285,541.94	31,993,794.40
Exchange loss	1,756,897.20	-12,702,901.28
Bank charges	2,501,048.06	1,695,620.53
Other expense	-20,547,188.72	-27,359,876.56
Total	<u>105,047,052.79</u>	<u>73,123,501.81</u>

### 59. Loss on impairment of assets

Item	Amount in this period	Amount in last period
Impairment loss on accounts receivable		17,410,689.84
Impairment loss on inventories	123,649,720.81	-742,395.00
Impairment loss on fixed assets	21,027,470.61	15,650,000.00
Impairment loss on advance payments	4,580,249.37	-178,424.61
Impairment loss on construction in progress	9,618,690.92	
Impairment provision of intangible assets	1,111,437.55	
Other	12,406,085.09	10,314,877.62
Total	<u>172,393,654.35</u>	<u>42,454,747.85</u>

### 60. Loss of credit impairment

Item	Amount in this period	Amount in last period
Loss of impairment of receivables	21,061,408.62	
Loss of impairment of debt investment	37,480,962.19	
Loss of impairment of loan assets	907,533.79	
Total	<u>59,449,904.60</u>	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 61. Other income

##### (1) Details of other income

Item	Amount in this period	Amount in last period
Government grants	36,623,032.72	55,890,931.87
Total	36,623,032.72	55,890,931.87

##### (2) Government grants included in other income

Item	Amount in this period	Amount in last period	Related to assets/ related to income
“Heluo artisans” talent team construction funds	200,000.00		Related to income
Technology Exchange Award Fund for Small and Micro Enterprises in Luoyang City in 2017	200,000.00		Related to income
Provincial Financial Incentive Fund for Enterprise R&D Expenses in 2017	187,200.00		Related to income
C Series Government Project Grant	716,000.00	716,000.00	Related to assets
Subsidy Funds for the Revision of National Standards	100,000.00		Related to income
Diesel crankshaft forging line		3,390,000.00	Related to assets
Industrial revitalization and technological transformation	2,200,000.00	2,200,000.00	Related to assets
High-power off-road diesel engine	4,900,000.00		Related to assets
Foreign investment and cooperation overseas investment projects		746,700.00	Related to income
In-depth promotion of industrial economic transformation and upgrading incentive funds	190,000.00		Related to income
The Environmental Protection Department transfers the appropriation from the Finance Bureau		50,000.00	Related to income
Key Laboratory for Failure Analysis of Mechanical Products		100,000.00	Related to income
Integration and demonstration application of agricultural machine navigation operation technology based on Beidou	152,936.99		Related to income
Energy-saving and environmentally friendly diesel engine crankshaft machining production line project	540,000.00	540,000.00	Related to assets
Wheel tractor technical transformation	1,384,000.00	2,768,000.00	Related to assets
Development of key core components for new energy-saving and environmentally friendly agricultural diesel engines	98,373.12	9,996.91	Related to income
Annual production of 1000 high-power power shift heavy-duty wheel tractors	875,000.00	250,000.00	Related to assets
Research and Development of Intelligent Control Technology for Agricultural Machinery and Industrialization Project	2,040,000.00	360,000.00	Related to income

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 61. Other income (Continued)

##### (2) Government grants included in other income (Continued)

Item	Amount in this period	Amount in last period	Related to assets/ related to income
Agricultural Machinery Casting Rapid Prototyping Technology Henan Engineering Laboratory		150,000.00	Related to income
Research on Key Technologies of Clean Combustion for Agricultural Diesel Engine	10,566.51		Related to income
Research on Control of Agricultural Machinery Exhaust Aftertreatment System and Key Technologies of OBD	200,773.57		Related to income
Industry support funds	1,534,600.00		Related to income
Key Technology Research and Machine Development of Hilly Mountain Tractor	569,625.55	25,936.08	Related to income
Research and application of key technologies for fully automatic intelligent precision forging demonstration line		2,500,000.00	Related to income
Subsidy Fund for Coal-fired Boiler Renovation Project	60,000.00		Related to income
The First Set of Major Technological Equipment Products Award and Subsidy Funds		10,000,000.00	Related to income
Improve independent research and development capabilities	1,322,826.13	1,295,939.76	Related to assets
Research and System Development of Reliability Testing Technology for Tractor Key Parts	1,099,656.82	102,992.24	Related to income
Research on Field Operation Quality and Test Performance Verification Technology of Tractor Unit	613,171.77		Related to income
Research and System Development of Tractor Inspection Technology	118,274.53		Related to income
Research on Fault Early Warning and Remote Diagnosis Technology of Tractor Operation Information Acquisition	264,270.53		Related to income
Stable subsidy	3,448,600.38	8,355,128.39	Related to income
Supporting Funds for Technological Transactions of Small and Micro Enterprises	200,000.00		Related to income
Development of key core components for new energy-saving and environmentally friendly agricultural diesel engines	847,218.99	619,877.08	Related to income
New wheeled tractor core capacity improvement	4,836,363.64	4,836,363.64	Related to assets
Research and Application of New Wear-resistant Metal Material in Agricultural Machinery Equipment	438,921.97		Related to income
Full Reward of Local Reserved Part of Value Added Tax Payments		833,800.00	Related to income
Major Equipment Premium Award		39,000.00	Related to income
Intellectual Property Patent Award	326,000.00		Related to income
Development of Intelligent Electric Tractor	17,275.56		Related to income
Application Research of Intelligent Design Platform in the Development of High Power Tractor	828,759.85	50,645.14	Related to income
Intelligent Tractor Location and Remote Monitoring System	1,000,000.00		Related to income

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 61. Other income (Continued)

##### (2) Government grants included in other income (Continued)

Item	Amount in this period	Amount in last period	Related to assets/ related to income
Medium power energy-saving and environmentally friendly agricultural diesel engine integrated development and machine matching	1,945,697.54	323,982.16	Related to income
China Association of Science and Technology Youth Talents Enrollment Project	210,000.00	78,385.00	Related to income
Central Special Subsidy Fund for Foreign Economic and Trade Development	1,000,000.00		Related to income
Key product testing and testing platform	1,388,947.20	1,950,528.23	Related to assets
Demonstration and Verification of a New Model of Personalized Rapid Customization Intelligent Manufacturing for Complex Equipment Parts	418,864.23	581,135.77	Related to income
Subsidies from the Beijing Business Commission		89,512.00	Related to income
Beijing Development Zone Subsidy		1,417,000.00	Related to income
Award and subsidy funds for science and technology research and development service platform in provincial industrial agglomeration areas in 2015		2,000,000.00	Related to income
National Key Laboratory of Tractor Power System Award Fund		1,000,000.00	Related to income
Provincial Key Technical Laboratory of Tractor		300,000.00	Related to income
Development and Industrialization of LF Series Power Shift Tractors		3,000,000.00	Related to income
Xinjiang Agricultural Apparel Construction Project		3,216,483.24	Related to income
Ministry of Science and Technology Cooperates to Develop Project Funds for Xinjiang Aid		600,000.00	Related to income
Cash of Innovation Vouchers in Luoyang City		543,000.00	Related to income
Volatile Organic Compounds Control Project		500,000.00	Related to income
Others	139,107.84	350,526.23	Related to income
Total	36,623,032.72	55,890,931.87	

(3) Explanation of other income: N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 62. Government grants

(1) *Classification of government grants by projects*

Projects of government grants	Amount in this period	Amount in last period	Remark
Government subsidies included in deferred income	17,781,980.00	36,272,200.00	
Government subsidies included in other income	7,595,508.22	24,553,225.39	
Government subsidies included in non-operating income	25,062,134.05	36,761,645.78	
Total	<u>50,439,622.27</u>	<u>97,587,071.17</u>	

(2) Explanation of government grants: N/A

#### 63. Investment income

(1) *Details of investment income*

Item	Amount incurred in this period	Amount incurred in last period
Investment income from long-term equity investments by equity method	-10,627,595.84	-460,927.51
Investment income from long-term equity investments by cost method		
Investment income from disposal of long term equity investments		94,994,451.25
Investment income on financial assets measured at fair value and its movement recorded through profit and loss in the holding period		20,515,121.90
Investment income on disposal of financial assets measured at fair value and its movement recorded through profit and loss in the current period		1,967,668.52
Investment returns on held-to-maturity investment during the holding period through profit and loss in the current period		1,407,340.35
Investment returns on disposal of held-to-maturity investment during the holding period		0.00
Investment income of available-for-sale financial assets during the holding period		17,685,729.82
Investment returns on disposal of financial assets available-for-sale		20,801,252.40
Investment income from holding of trading financial assets;	12,340,347.25	
Investment income from disposal of trading financial assets	-24,806.62	
Investment income from holding of debt investments	1,430,602.21	
others	16,040,155.59	
Total	<u>19,158,702.59</u>	<u>156,910,636.73</u>

(2) Explanation of investment income: N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 64. Income from changes in fair value

Item	Amount in this period	Amount in last period
Fair Value Change Gains and Losses from trading financial assets	-570,067.23	
Financial assets measured at fair value and its movement recorded through profit and loss		2,185,068.18
Derivative financial liabilities	10,072,407.16	-27,633,000.00
Derivative financial assets	578,743.73	
Total	10,081,083.66	-25,447,931.82

#### 65. Assets disposal income

Item	Amount incurred in this period	Amount incurred in last period
Profit or loss of the disposal of fixed assets	196,944.39	2,318,017.87
Total	196,944.39	2,318,017.87

#### 66. Non-operating income

Item	Amount in this period	Amount in last period	Extraordinary gains and losses recognized in this period
Gain on debt restructuring	6,708,418.35	1,017,082.36	6,708,418.35
Unpayable payables			
Government grants	25,350,134.05	36,761,645.78	25,350,134.05
Others	9,021,347.93	32,800,436.85	9,021,347.93
Total	41,079,900.33	70,579,164.99	41,079,900.33

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 66. Non-operating income (Continued)

(1) *Details of government grants*

Item	Amount in this period	Amount in last period	Related to assets/Related to income
Special funds for urban security housing projects	288,000.00		Related to income
The first batch of high-tech enterprises recognized and awarded by Luoyang Finance Bureau in 2017		800,000.00	Related to income
Zombie enterprise subsidy	24,421,153.25	22,155,187.29	Related to income
Municipal Engineering Technology Center	100,000.00		Related to income
“Three Provisions and One Business” Subsidy	540,980.80	13,791,858.49	Related to income
Luoyang City Huang Biao car early phase-out subsidy funds		14,600.00	Related to income
Total	<u>25,350,134.05</u>	<u>36,761,645.78</u>	

(2) Explanation of non-operating income: N/A

#### 67. Non-operating expenses

Item	Amount in this period	Amount in last period	Extraordinary gains and losses recognized in this period
Debt restructuring	671,509.77	2,108,448.75	671,509.77
Donations to outside party	8,000.00		8,000.00
Extraordinary loss	237,662.88		237,662.88
Others	3,876,026.59	20,935,370.70	3,876,026.59
Total	<u>4,793,199.24</u>	<u>23,043,819.45</u>	<u>4,793,199.24</u>

Explanation of non-operating income: N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 68. Income tax expenses

##### (1) Chart of income tax expenses

Item	Amount in this period	Amount in last period
Current income tax expenses	41,240,790.25	28,571,204.59
Deferred income tax expense	8,596,134.66	-10,226,188.79
Others	384,975.34	
Total	<u>50,221,900.25</u>	<u>18,345,015.80</u>

##### (2) The Adjustment Process of Accounting Profit and Income Tax Expenses

Item	Amount in this period
Total profit	-1,314,750,256.02
Income Tax Expenses at Statutory/Applicable Tax Rates	-328,687,564.01
The Impact of Different Tax Rates on Subsidiaries	99,719,408.36
The impact of income tax on the period before adjustment	-292,318.50
The impact of non-taxable income	-4,930,274.39
Non-deductible Cost, Cost and Loss Impact	1,379,896.35
The impact of deductible loss on deferred income tax assets not recognized in the prior period of use	-1,169,957.93
The impact of deductible temporary differences or deductible losses on deferred income tax assets not recognized in the current period	247,144,175.50
Extra deductions for R & D expenses	-30,198,438.04
Others	67,256,972.91
Income tax expenses	<u>50,221,900.25</u>

- (3) Explanation of income tax expenses: The other items are mainly deferred income tax assets which are confirmed by deductible losses of the previous year of YTO (France) Agricultural Equipment Co., Ltd. to be charged back in the current year.

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**69. Notes to items of cash flow statement**

**(1) Cash receipts from other operating activities**

Item	Amount in this period	Amount in last period
Cash receipts from interest income of bank deposits	21,911,596.09	11,719,046.40
Cash receipts from other receivables	137,260,460.24	320,830,892.51
Total	<u>159,172,056.33</u>	<u>332,549,938.91</u>

**(2) Cash payments to other operating activities.**

Item	Amount in this period	Amount in last period
Payment of selling and administrative expenses	257,676,068.35	546,068,001.86
Payment of other payables	7,257,284.14	5,016,259.98
Total	<u>264,933,352.49</u>	<u>551,084,261.84</u>

**(3) Cash receipts from other investing activities**

Item	Amount in this period	Amount in last period
Cash received from assets-related government grants	—	18,900,000.00
Total	<u>—</u>	<u>18,900,000.00</u>

**(4) Other cash payments relating to financing activities**

Item	Amount in this period	Amount in last period
Repurchase H shares	—	17,925,712.05
Total	<u>—</u>	<u>17,925,712.05</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 70. Supplementary information for consolidated cash flow statement

(1) *Supplementary information for consolidated cash flow statement*

Item	Amount in this period	Amount in last period
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	-1,364,972,156.27	37,711,338.94
Add: Provision for asset impairment	231,843,558.95	42,454,747.85
Depreciation of fixed asset	302,705,675.67	296,868,124.82
Amortization of intangible assets	31,468,203.82	31,125,252.35
Amortization of long-term deferred expenses	16,562,266.58	13,752,204.34
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain listed as "-")	-196,944.39	-2,318,017.87
Loss on disposal of fixed assets (Gain listed as "-")		
Gain or loss from changes in fair value (Gain listed as "-")	-10,081,083.66	25,447,931.82
Financial expenses (Gain listed as "-")	139,878,201.62	88,873,792.10
Loss on investments (Gain listed as "-")	-19,158,702.59	-156,910,636.73
Decrease in deferred tax assets (Increase listed as "-")	10,738,573.22	-8,140,503.02
Increase in deferred tax liabilities (Decrease listed as "-")	-2,142,438.56	-2,015,547.24
Decrease in inventories (Increase listed as "-")	-386,310,148.38	-154,031,734.39
Decrease in operating receivables (Increase listed as "-")	335,083,777.88	-588,434,665.05
Increase in operating payables (Decrease listed as "-")	330,183,468.26	-180,696,219.81
Others		
Net cash flow generated from operating activities	-384,397,747.85	-556,313,931.89
2. Significant non-cash investing and financing activities		
Conversion of debts into capital		
Convertible bonds repayable within 1 year		
Fixed assets acquired under finance lease arrangement		
3. Net changes in cash and cash equivalents		
Ending balance of cash	1,279,587,830.24	2,946,734,827.85
Less: Beginning balance of cash	2,946,734,827.85	2,894,305,807.48
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	-1,667,146,997.61	52,429,020.37

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 70. Supplementary information for consolidated cash flow statement (Continued)

##### (2) Cash and cash equivalents

Item	Ending balance	Beginning balance
1. Cash	<b>1,279,587,830.24</b>	2,946,734,827.85
Including: Cash on hand	<b>1,054,228.70</b>	814,564.53
Bank deposits ready for payment	<b>1,266,288,328.52</b>	2,945,846,039.79
Other monetary funds ready for payment	<b>12,245,273.02</b>	74,223.53
Deposit in the Central Bank ready for payment		
Interbank deposits		
Loans to other banks		
2. Cash equivalents		
Including: Bond investments due within 3 months		
3. Ending balance of cash and cash equivalents	<b>1,279,587,830.24</b>	2,946,734,827.85
Including: Cash and cash equivalents with restricted use of the parent company or the subsidiaries of the Group		

#### 71. Assets with restricted ownership or right to use

Item	Ending balance of book value	Reason
Monetary funds	<b>270,257,510.94</b>	Cash deposits and statutory reserve deposited in the Central Bank
Notes receivable	<b>14,919,857.48</b>	Pledged
Fixed assets	<b>55,000,242.01</b>	Short-term loan mortgage guarantee
Intangible assets	<b>16,670,208.02</b>	Short-term loan mortgage guarantee
Total	<b>356,847,818.45</b>	

Other explanation: N/A

#### 72. Net current assets

Item	Ending balance	Beginning balance
Current assets	<b>7,532,432,255.80</b>	9,338,645,908.20
Less: current liabilities	<b>7,183,179,930.34</b>	7,747,678,120.64
Net current assets	<b>349,252,325.46</b>	1,590,967,787.56

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 73. Total assets deduct current liabilities

Item	Ending balance	Beginning balance
Total assets	13,140,741,755.99	14,798,667,744.92
Less: current liabilities	7,183,179,930.34	7,747,678,120.64
Total assets deduct current liabilities	5,957,561,825.65	7,050,989,624.28

#### 74. Loan

Item	Ending balance	Beginning balance
Short-term bank loan	2,077,516,101.03	1,333,879,689.22
Short-term entrustment loan	700,000,000.00	700,000,000.00
Long-term loans due in one year	60,000,000.00	9,752,875.00
Bonds payable within one year		1,499,228,820.52
Long-term loan	868,473,000.00	689,011,500.00
Bonds payable		0.00
Total	3,705,989,101.03	4,231,872,884.74

#### (1) Analysis of loan

Item	Ending balance	Beginning balance
Bank loan		
Paid within one year	2,837,516,101.03	1,343,632,564.22
Paid after one year	868,473,000.00	689,011,500.00
Subtotal	3,705,989,101.03	2,032,644,064.22
Other loan		
Paid within one year		2,199,228,820.52
Paid after one year		0.00
Subtotal		2,199,228,820.52
Total	3,705,989,101.03	4,231,872,884.74

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)**

**74. Loan (Continued)**

**(2) Maturity date analysis of loan**

Item	Ending balance	Beginning balance
Bank loan		
Within 1 year	<b>2,837,516,101.03</b>	1,343,632,564.22
1–2 years	<b>629,236,500.00</b>	60,000,000.00
2–5 years	<b>239,236,500.00</b>	629,011,500.00
Over 5 years		
	<hr/>	<hr/>
Subtotal	<b><u>3,705,989,101.03</u></b>	<u>2,032,644,064.22</u>
Other loan		
Within 1 year		2,199,228,820.52
1–2 years		–
2–5 years		–
Over 5 years		–
Subtotal		<u>2,199,228,820.52</u>
Total	<b><u><u>3,705,989,101.03</u></u></b>	<b><u><u>4,231,872,884.74</u></u></b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 75. Foreign currency monetary items

(1) *Foreign currency monetary items*

Item	Ending balance of foreign currency	Exchange rate	Ending balance converted into RMB
<b>Monetary funds</b>			<b>163,371,093.95</b>
USD	14,434,135.98	6.8632	99,064,362.06
EUR	2,689,414.73	7.8473	21,104,644.22
HKD	42,264,257.80	0.8762	37,031,942.69
YEN	7.00	0.0619	0.43
AUD	615,412.92	4.8250	2,969,367.34
XOF	203,719,689.00	0.01196	2,436,487.48
ZAR	1,513,403.99	0.4735	716,596.79
BYR	15,008.62	3.1776	47,692.94
<b>Accounts receivable</b>			<b>119,255,241.03</b>
USD	13,221,746.95	6.8632	90,743,493.72
EUR	566,552.24	7.8473	4,445,905.40
AUD	1,614,639.72	4.8250	7,790,636.65
XOF	246,045,861.22	0.01196	2,942,708.50
ZAR	28,157,332.13	0.4735	13,332,496.76
<b>Other receivables</b>			<b>336,926.69</b>
XOF	26,409,632.50	0.01196	315,859.21
ZAR	44,493.09	0.4735	21,067.48
<b>Non-current assets maturing within one year</b>			<b>170,816,064.55</b>
USD	24,888,691.07	6.8632	170,816,064.55
<b>Long-term receivables</b>			<b>320,789,277.89</b>
USD	26,405,472.06	6.8632	181,226,035.84
EUR	17,784,874.04	7.8473	139,563,242.05
<b>Accounts payable</b>			<b>56,255,123.34</b>
USD	5,353,426.42	6.8632	36,741,636.24
EUR	2,453,632.06	7.8473	19,254,386.88
AUD	16,497.46	4.8250	79,600.24
XOF	5,796,739.94	0.01196	69,346.48
ZAR	150,000.00	0.4735	71,025.00
BYR	12,313.45	3.1776	39,128.50
<b>Other payables</b>			<b>56,815,677.09</b>
USD	68,079.88	6.8632	467,245.83
EUR	7,179,865.36	7.8473	56,342,557.44
BYR	1,848.45	3.1776	5,873.82
<b>Short-term borrowings</b>			<b>928,516,101.13</b>
USD	135,000,000.00	6.8632	926,532,000.00
EUR	252,838.70	7.8473	1,984,101.13
<b>Long-term loans</b>			<b>78,473,000.00</b>
EUR	10,000,000.00	7.8473	78,473,000.00
<b>Long-term accounts payable</b>			<b>8,971,437.07</b>
XOF	750,120,156.00	0.01196	8,971,437.07

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

#### 75. Foreign currency monetary items (Continued)

(2) *Overseas business entities*

Company name	Overseas main business place	Recording currency	The basis for recording currency selection
Brilliance China Machinery Holdings Co., Ltd	Hong Kong	USD	Business environment and the main settlement currency
YITWO Agro-Industrial	Côte d'Ivoire	XOF	Business environment and the main settlement currency
CAD FUND MACHINERY (SA) (PTY) LTD.	South Africa	ZAR	Business environment and the main settlement currency
YTO FRANCE SAS	France	EUR	Business environment and the main settlement currency
YTO Belarus Technology Co. Ltd.	Belarus	BYR	Business environment and the main settlement currency

#### 76. Depreciation and amortization

Item	Amount in this period	Amount in last period
Depreciation of fixed assets	302,705,675.67	296,868,124.82
Amortization of intangible assets	31,468,203.82	31,125,252.35
Total	<u>334,173,879.49</u>	<u>327,993,377.17</u>

#### 77. Reserved funds

According to the applicable law of China, where the Group is registered and established, the allowable reserve of the Group on December 31, 2018 is RMB493,080,403.24, and the capital reserve-equity premium is RMB1,851,848,375.56.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VII. CHANGES IN SCOPE OF CONSOLIDATION

#### 1. Business consolidation not under common control

No business consolidation not under common control in this period.

#### 2. Business consolidation under common control

No business consolidation under common control in this period.

#### 3. Disposal of subsidiary companies

The cancellation of Luoyang Changhong Industry and Trade Co., Ltd., which is a second-level subsidiary of the Group, resulted in a reduction in the merger scope of the second-level subsidiary compared with the previous year.

#### 4. Change in merger scope for other reasons: N/A

#### 5. Others: N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VIII. INTERESTS IN OTHER ENTITIES

#### 1. Interests in subsidiaries

##### (1) Composition of the Group

Name of the subsidiary	Main operating place	Registration place	Business nature	Shareholding percentage (%)		Acquisition method
				Direct	Indirect	
China-Africa Heavy Industry Investment Co., Ltd	China	China	Sale of agricultural machinery	55.00		Establishment
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	China	China	Tractor manufacturing	33.33		Subsidiaries acquired through business combination not under common control
YTO Heilongjiang Agricultural Machinery Co., Ltd	China	China	Tractor manufacturing	100.00		Establishment
Luoyang Tractor Research Institute Co., Ltd	China	China	Others	51.00		Business combination under common control
YTO International Economic and Trade Co., Ltd	China	China	Sale of agricultural machinery	100.00		Business combination under common control
YTO (Luoyang) Flag Auto-Body Company Limited	China	China	Tractor manufacturing	100.00		Business combination under common control
YTO (Luoyang) Fuel Injection Co., Ltd	China	China	Power machinery manufacturing	66.60	22.83	Business combination under common control
Huachen China Machinery Holding Co., Ltd.	China	Bermuda	Investment shareholding	90.10		Establishment
Luoyang Changxing Agricultural Machinery Co., Ltd	China	China	Sale of agricultural machinery	70.00	30.00	Establishment
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	China	China	Other machinery manufacturing	100.00		Establishment
China YTO Group Finance Co., Ltd	China	China	Finance	94.60	4.80	Establishment
YTO (Luoyang) Transportation Machinery Co., Ltd	China	China	Other machinery manufacturing	93.39		Establishment
YTO (Luoyang) Diesel Engine Co., Ltd	China	China	Power machinery manufacturing	67.94	19.45	Business combination under common control
YTO Shunxing (Luoyang) Spare Parts Co., Ltd	China	China	Tractor manufacturing	100.00		Subsidiaries acquired through business combination not under common control
YTO (Luoyang) Foundry Company Limited	China	China	Tractor manufacturing	100.00		Business combination under common control
YTO (Xinjiang) Machinery Co., Ltd	China	China	Tractor manufacturing	100.00		Establishment
YTO FRANCE SAS	France	France	Tractor manufacturing	100.00		Establishment
YTO Belarus Technology Co. Ltd	Belarus	Belarus	Research and development	100.00		Business combination under common control

*Note:* According to the decision of the first meeting of the sixth board of directors in 2012, the Company raised capital with RMB94,250,000.00 based on the valuation of net assets of Changtuo Agricultural Machinery Equipment Group Co., Ltd (referred to as "Changtuo Company") on March 31, 2012. The Company holds 33.33% equity of Changtuo Company after raising capital. In accordance with the agreement between the Company and China National Machinery Industry Corporation (referred to as "SinoMach"), SinoMach authorized its voting right and supervision and management right corresponding to 33.33% equity of Changtuo Company to the Company to independently exercise these rights. The authorization will end when SinoMach transfers the equity to unrelated third parties. During the authorization period, SinoMach cannot unilaterally withdraw its authorization. SinoMach has to obtain the written consent from the Company if SinoMach needs to transfer its equity to a third party. However, the Company has the priority purchase right. At this point, the Company obtained 66.66% voting right and actual control right of Changtuo Company.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

#### 1. Interests in subsidiaries (Continued)

##### (2) Significant partially-owned subsidiaries

Name of the subsidiary	Shareholding percentage of minority shareholders (%)	Profit or loss attributable to minority shareholders	Dividends declared to minority shareholders in this period	Ending balance of minority interests	Remark
Brilliance China Machinery Holdings Co., Ltd	9.9	166,869.36	8,273,232.00	3,674,258.08	
YTO (Luoyang) Transportation Machinery Co., Ltd	6.61	-188,107.00		-837,931.34	
YTO Group Finance Co., Ltd	1.21	449,306.57	189,000.00	10,077,497.27	
China-Africa Heavy Industry Investment Co., Ltd	45	-3,579,423.24		43,161,478.61	
Luoyang Tractor Research Institute Co., Ltd	49	-985,840.61		328,334,352.08	
YTO (Luoyang) Diesel Engine Co., Ltd	14.53	-35,093,576.95		233,904,080.93	
YTO (Luoyang) Fuel Injection Co., Ltd	13.89	-6,968,437.68		20,707,065.81	
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	66.67	-17,906,811.10		14,480,205.61	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

#### 1. Interests in subsidiaries (Continued)

##### (3) Main financial information of significant partially-owned subsidiaries

The main financial information of these subsidiaries is the amount before each company offset each other, but the adjustment of fair value and unified accounting policy is made after the merger day.

Item	Ending balance/Amount in this period							
	YTO (Luoyang) Transportation Machinery Co., Ltd	Brilliance China Machinery Holdings Co., Ltd	YTO Group Finance Co., Ltd	China-Africa Heavy Industry Investment Co., Ltd	Luoyang Tractor Research Institute Co., Ltd	YTO (Luoyang) Diesel Engine Co., Ltd	YTO (Luoyang) Fuel Injection Co., Ltd	Chang Tuo Agricultural Machinery Equipment Group Co., Ltd
Current assets	5,874,021.31	108,843,020.38	1,969,510,800.96	118,663,361.07	269,290,957.69	1,705,630,724.03	81,362,896.93	14,652,423.39
Non-current assets	21,935,652.98	10,294,800.00	2,321,467,866.98	1,663,262.63	497,377,005.23	702,314,360.92	106,014,587.78	151,727,132.27
Total assets	27,809,674.29	119,137,820.38	4,290,978,667.94	120,326,623.70	766,667,962.92	2,407,945,084.95	187,377,484.71	166,379,555.66
Current liabilities	40,129,046.10	84,035,357.49	3,480,505,652.02	17,683,548.97	47,291,594.58	903,065,768.19	32,586,351.00	137,392,776.23
Non-current liabilities	248,202.05		124,973.13	8,971,437.07	49,306,262.06	130,235,266.82	8,427,589.86	7,266,421.63
Total liabilities	40,377,248.15	84,035,357.49	3,480,630,625.15	26,654,986.04	96,597,856.64	1,033,301,035.01	41,013,940.86	144,659,197.86
Operating income	6,040,296.85	-	185,431,785.31	81,659,065.39	215,332,593.36	1,274,189,141.87	58,590,871.01	
Net profit	-2,845,794.25	1,685,549.08	37,123,570.18	-8,256,169.71	-2,011,919.62	-228,508,732.14	-50,179,575.72	-26,860,203.22
Total comprehensive income	-2,845,794.25	5,425,559.19	37,123,570.18	-8,744,269.92	-2,011,919.62	-228,508,732.14	-50,179,575.72	-26,860,203.22
Cash Flow of Operational Activities	-18,447,066.91	1,356,281.46	-1,597,300,285.40	1,639,818.12	36,947,854.49	-39,596,860.64	-31,557,536.90	-4,231,490.22

Item	Beginning balance/Amount in last period							
	YTO (Luoyang) Transportation Machinery Co., Ltd	Brilliance China Machinery Holdings Co., Ltd	YTO Group Finance Co., Ltd	China-Africa Heavy Industry Investment Co., Ltd	Luoyang Tractor Research Institute Co., Ltd	YTO (Luoyang) Diesel Engine Co., Ltd	YTO (Luoyang) Fuel Injection Co., Ltd	Chang Tuo Agricultural Machinery Equipment Group Co., Ltd
Current assets	21,011,978.10	164,251,903.08	3,329,903,268.01	132,575,620.41	255,669,980.52	1,684,794,225.47	122,396,433.05	18,953,865.23
Non-current assets	23,562,809.77	9,801,300.00	2,002,273,902.56	2,428,418.11	520,054,526.43	685,713,738.31	116,409,891.79	168,461,700.74
Total assets	44,574,787.87	174,053,203.08	5,332,177,170.57	135,004,038.52	775,724,506.95	2,370,507,963.78	238,806,324.84	187,415,565.97
Current liabilities	54,296,567.48	60,808,299.38	4,527,452,697.96	32,588,130.94	55,590,045.07	648,384,374.71	42,263,205.27	131,088,906.33
Non-current liabilities	0.00	0.00	0.00	0.00	47,970,201.83	118,970,806.99	0.00	7,698,398.23
Total liabilities	54,296,567.48	60,808,299.38	4,527,452,697.96	32,588,130.94	103,560,246.90	767,355,181.70	42,263,205.27	138,787,304.56
Operating income	15,220,288.07	0.00	174,825,024.85	68,670,884.37	252,309,797.62	1,783,273,257.17	92,784,102.59	124,143.42
Net profit	-4,418,959.68	15,284,433.82	80,593,036.93	-239,249.52	14,883,110.43	16,379,353.24	-24,989,720.61	-40,639,262.28
Total comprehensive income	-4,418,959.68	10,330,646.93	75,774,758.88	437,887.91	14,883,110.43	16,379,353.24	-24,989,720.61	-40,639,262.28
Cash Flow of Operational Activities	17,185,386.01	-465,746.57	180,355,941.49	6,566,487.50	59,519,702.46	-5,694,925.65	-16,408,363.25	-8,044,304.68

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

#### 1. Interests in subsidiaries (Continued)

(4) *Major restrictions on the use of enterprise group assets and repayment of enterprise group debt*

N/A

(5) *Financial support or other support provided to the structured body that incorporates the scope of the consolidated financial statements*

N/A

#### 2. Situation of which the portion of shareholders' equity in a subsidiary changed but still in control of the subsidiary

The Group does not have this transaction in this period.

#### 3. Interests in joint ventures or associates

(1) *Significant joint ventures or associates*

Name of joint ventures or associates	Main operating place	Registration place	Business nature	Shareholding percentage (%)		Accounting method of investments in joint ventures or associates
				Direct	Indirect	
ZF YTO (Luoyang) Drive Axle Co., Ltd	China	China	Tractor manufacturing	49.00		Equity method
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd	China	China	Tractor manufacturing	20.00		Equity method

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

#### 3. Interests in joint ventures or associates (Continued)

(2) *Main financial information of important joint ventures*

Item	Ending balance/Amount incurred in this period	
	YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd	ZF YTO (Luoyang) Drive Axle Co., Ltd
Current assets	2,812,309.91	121,251,327.99
Non-current assets	1,384,221.51	184,366,831.34
Total assets	4,196,531.42	305,618,159.33
Current liabilities	299,967.23	39,910,220.53
Non-current liabilities	100,000.00	
Total liabilities	399,967.23	39,910,220.53
Minority interests		
Equity attributable to the parent company shareholders	3,796,564.19	265,707,938.80
Share of net assets calculated by shareholding ratio	759,316.82	130,196,890.01
Adjusted matters		-7,605.40
–Goodwill		
–Unrealized profits from internal transactions		-7,605.40
–Others		
Book value of equity investments in joint ventures	759,316.82	130,189,284.61
Fair value of equity investments in joint ventures with public offer		
Operating income	78,872.73	162,188,379.00
Finance expenses	273.55	-1,502,511.28
Income tax expenses		
Net profit	-410,633.69	-21,173,245.48
Net profits of discontinuing operation		
Other comprehensive income		
Total comprehensive income	-410,633.69	-21,173,245.48
Dividends from associates for current period		

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

#### 3. Interests in joint ventures or associates (Continued)

##### (2) Main financial information of important joint ventures (Continued)

Item	Beginning balance/Amount incurred in last period	
	YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd	ZF YTO (Luoyang) Drive Axle Co., Ltd
Current assets	3,059,751.35	142,549,605.68
Non-current assets	1,543,792.63	188,565,315.93
Total assets	4,603,543.98	331,114,921.61
Current liabilities	296,346.10	43,906,993.70
Non-current liabilities	100,000.00	
Total liabilities	396,346.10	43,906,993.70
Minority interests		
Equity attributable to the parent company shareholders	4,207,197.88	287,207,927.91
Share of net assets calculated by shareholding ratio	841,443.56	140,731,884.68
Adjusted matters		-270,617.83
– Goodwill		
– Unrealized profits from internal transactions		-270,617.83
– Others		
Book value of equity investments in joint ventures	841,443.56	140,461,266.85
Fair value of equity investments in joint ventures with public offer		
Operating income	1,347,761.18	216,532,958.84
Finance expenses	630.90	-1,430,537.59
Income tax expenses		
Net profit	-576,629.96	-1,194,145.28
Net profits of discontinuing operation		
Other comprehensive income		
Total comprehensive income	-576,629.96	-1,194,145.28
Dividends from associates for current period		7,056,000.00

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

#### 3. Interests in joint ventures or associates (Continued)

**(3) Summary financial information of insignificant associates**

Item	Ending balance/ Amount incurred in this period	Beginning balance/ Amount incurred in last period
Associates total book value of investments	255,214.27	165,563.01
Total amount of the following items calculated by shareholding ratio	-	-
Net profit	89,651.26	75,103.74
Other comprehensive income		
Total comprehensive income	<u>89,651.26</u>	<u>75,103.74</u>

**(4) Significant restrictions of the ability to transfer funds from associates or joint ventures to the Group**

None

**(5) Excess loss incurred in associates or joint ventures**

None

**(6) Unconfirmed commitments related to investments in associates**

None

**(7) Contingent liabilities related to investments in associates or joint ventures**

None

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IX. RISK RELATED TO FINANCIAL INSTRUMENTS

The Group faces risks of various financial instruments in its daily activities, including credit risk, liquidity risk, market risk (including exchange rate risk, interest rate risk and commodity price risk). The Group's main financial instruments include currency funds, equity investments, creditor's rights investments, loans, accounts receivable, accounts payable, etc. The risks associated with these financial instruments and the risk management policies adopted by the Group to reduce these risks are described below:

The Board of Directors is responsible for planning and establishing the risk management framework of the Group, formulating the Group's risk management policies and related guidelines, and supervising the implementation of risk management measures. The Group has formulated risk management policies to identify and analyze the risks faced by the Group. These risk management policies specify specific risks, covering market risk, credit risk and liquidity risk management, etc. The Group regularly assesses changes in the market environment and the Group's business activities to determine whether to update risk management policies and systems.

The Group disperses the risk of financial instruments through appropriate diversification of investment and business portfolio, and reduces the risk of focusing on a single industry, a specific region or a specific counterparty by formulating corresponding risk management policies.

#### 1. Credit risk

Credit risk refers to the risk of financial loss caused by the failure of the counterparty to perform its contractual obligations. The Group has adopted a policy of cooperating only with creditworthy counterparties and obtaining sufficient collateral when necessary to mitigate the risk of financial losses arising from the failure of counterparties to fulfil their contractual obligation. The Group deals only with subjects rated as equal to or above the investment level. Rating information is provided by independent rating agencies. If such information is not available, the Group will use other publicly available financial information and its own transaction records to rate major customers. The Group continuously monitors the exposure to risks and the credit ratings of many counterparties and continuously monitors these exposure to credit risks.

On December 31, 2018, the biggest credit risk exposure that may cause financial losses to the Group was mainly due to the failure of the client or counterparty to perform on the due date. Specifically, it includes accounts receivable, other receivables and notes receivable, as well as the lending business of China YTO Group Finance Co., Ltd., a subsidiary of the Group.

The policy of the Group is to make all customers with credit term transactions to go through credit audit procedures. the Group evaluate the credit qualification of customers and set up corresponding credit period which are based on the financial status of customers, the possibility of obtaining guarantees from third parties, credit records and other factor refer to current market conditions. the Group will conduct regular monitoring of customer credit records. As for bad credit customers, the Group will use the written reminders, shorten the credit period or cancel the credit period to ensure that the Group's overall credit risk in the controllable range. In addition, the Group will continue to monitor balances of accounts receivable. The board of directors believes that the uncollected accounts receivable in the financial statement has an adequate allowance. Considering with such procedures, the board of directors believes that the credit risk has been significantly reduced.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

#### 1. Credit risk (Continued)

Monetary funds held by the Group are mainly deposited in state-owned holding banks and other large and medium-sized commercial banks and other financial institutions. The management believes that these commercial banks have a high reputation and asset status, there is no significant credit risk, and will not cause any significant losses due to the default of the other party's units.

The debtor of accounts receivable is a large number of customers distributed in different industries and regions. The Group continues to conduct credit assessments of the financial position of debtors of accounts receivable and to purchase credit guarantee insurance when appropriate. Because the counterparts of currency funds and derivatives are reputable banks with high credit ratings, these instruments have low credit risk.

As of December 31, 2018, the accounts receivable of the top five customers accounted for 28.81% (2017: 32.10%) of the Group's total accounts receivable, so the group has no significant risk of credit concentration.

The Group's credit risk exposure includes both in-balance sheet and out-of-balance sheet items involving credit risk. On the balance sheet date, the book value of the Group's financial assets represents its maximum credit risk exposure.

#### 2. Liquidity risk

Liquidity risk refers to the risk of capital shortage when the Group fulfills its obligation to pay cash or other financial assets for settlement. Each member of the Group is responsible for its cash flow forecast. The financial company under the Group monitors the long-term and short-term capital demand at the Group level based on the cash flow forecast results of each member company. Through the fund pool plan set up by large banking financial institutions, the Group coordinates and dispatches surplus funds within the group, and ensures that member enterprises have sufficient cash reserves to fulfill payment obligations due for settlement. In addition, the Group has entered into a credit agreement with major business banks to support the Group in fulfilling its obligations related to commercial paper.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

#### 2. Liquidity risk (Continued)

Cash Flow Payable as shown in the Contract Remaining Period at the Balance Sheet Date of the Group's Financial Liabilities:

Item	Net book vale	Within 1 year	December 31, 2018		
			1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities					
Notes payable	958,616,789.34	958,616,789.34			
Accounts payable	1,194,829,925.57	1,194,829,925.57			
Other payables	283,833,498.25	283,833,498.25			
Interests payable	20,514,340.13	20,514,340.13			
Loans	3,705,989,101.03	2,837,516,101.03	629,236,500.00	239,236,500.00	
Absorbing deposits and Interbank Deposit	1,080,524,854.03	1,080,524,854.03			
Subtotal of non-derivative financial liabilities	7,244,308,508.45	6,375,835,508.45	629,236,500.00	239,236,500.00	
Derivative financial liabilities	2,727,592.84	2,727,592.84			
Financial liabilities	7,247,036,101.29	6,378,563,101.29	629,236,500.00	239,236,500.00	

Item	Net book vale	Within 1 year	December 31, 2017		
			1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities					
Notes payable	820,501,598.94	820,501,598.94			
Accounts payable	1,465,330,454.31	1,465,330,454.31			
Other payables	276,121,409.06	276,121,409.06			
Absorbing deposits and Interbank Deposit	780,195,528.74	780,195,528.74			
Loans	2,731,872,884.74	2,042,861,384.74	60,000,000.00	629,011,500.00	
Bonds	1,499,228,820.52	1,499,228,820.52			
Subtotal of non-derivative financial liabilities	7,574,021,875.79	6,885,010,375.79	60,000,000.00	629,011,500.00	
Derivative financial liabilities	12,800,000.00	12,800,000.00			
Financial liabilities	7,586,821,875.79	6,897,810,375.79	60,000,000.00	629,011,500.00	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

#### 3. Market risk

##### (1) Exchange rate risk

The main business of our company is in China, and the main business is settled in RMB. the Group has confirmed that the foreign currency assets and liabilities and future transactions in foreign currency still exists the risk of exchange rate (the currency for foreign currency assets and liabilities and foreign transactions mainly are US dollar, Hongkong dollar, Euro, Yen, Australian dollar West African francs and Rand). The financial department of the Group is responsible for monitoring the scale of foreign currency transactions and foreign currency assets and liabilities of the Group to minimize the risk of exchange rate so that the Group may achieve the purpose of avoiding the exchange rate risk by signing forward foreign exchange contracts.

The term of forward foreign exchange contract or currency swap contract signed by the Group in this period is as follows:

the Group's short-term and medium-term foreign currency loans of US\$135 million have signed currency swap agreements with relevant banks and locked in the exchange rate to prevent the related risks caused by interest rate changes.

By the end of December 31, 2018, the amount of foreign currency financial assets and foreign currency financial liabilities converted into RMB is listed below:

Item	Ending balance		Beginning balance	
	Original currency	Converted into RMB	Original currency	Converted into RMB
Foreign currency of financial assets				
<b>Monetary funds</b>		<b>163,371,093.95</b>		170,464,840.26
USD	14,434,135.98	99,064,362.06	14,225,165.48	92,950,076.26
EUR	2,689,414.73	21,104,644.22	4,356,883.85	33,993,714.86
HKD	42,264,257.80	37,031,942.69	41,920,573.51	35,041,826.60
YEN	7.00	0.43	23,567,270.00	1,364,144.29
AUD	615,412.92	2,969,367.34	51,673.72	263,163.92
XOF	203,719,689.00	2,436,487.48	121,796,228.00	1,448,157.15
ZAR	1,513,403.99	716,596.79	10,199,286.80	5,382,163.65
GBP				
BYR	15,008.62	47,692.94	6,519.17	21,593.53
<b>Accounts receivable</b>		<b>119,255,241.03</b>		440,416,788.40
USD	13,221,746.95	90,743,493.72	61,038,833.32	398,839,944.76
EUR	566,552.24	4,445,905.40	2,484,049.90	19,381,302.53
AUD	1,614,639.72	7,790,636.65	1,151,250.20	5,863,087.02
XOF	246,045,861.22	2,942,708.50	205,228,297.20	2,440,164.45
ZAR	28,157,332.13	13,332,496.76	26,326,112.64	13,892,289.64

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

#### 3. Market risk (Continued)

##### (1) Exchange rate risk (Continued)

Item	Ending balance		Beginning balance	
	Original currency	Converted into RMB	Original currency	Converted into RMB
<b>Other receivables</b>		<b>336,926.69</b>		19,802,143.52
XOF	26,409,632.50	315,859.21	62,986,219.50	748,906.15
ZAR	44,493.09	21,067.48	102,608.93	54,146.73
EUR			2,435,062.82	18,999,090.64
<b>Non-current assets maturing within one year</b>		<b>170,816,064.55</b>		
USD	24,888,691.07	170,816,064.55		
<b>Long-term receivables</b>		<b>320,789,277.89</b>		
USD	26,405,472.06	181,226,035.84		
EUR	17,784,874.04	139,563,242.05		
Foreign currency of financial liabilities				
<b>Accounts payable</b>		<b>56,255,123.34</b>		45,934,551.15
USD	5,353,426.42	36,741,636.24	5,437,842.03	35,531,947.39
EUR	2,453,632.06	19,254,386.88	1,314,149.28	10,253,386.92
AUD	16,497.46	79,600.24		
XOF	5,796,739.94	69,346.48	5,892,501.00	70,061.84
ZAR	150,000.00	71,025.00	150,000.00	79,155.00
BYR	12,313.45	39,128.50		
<b>Other payables</b>		<b>56,815,677.09</b>		48,877,020.66
USD	68,079.88	467,245.83	3,437,472.96	22,461,135.81
EUR	7,179,865.36	56,342,557.44	1,724,805.83	13,457,452.53
HKD			13,998,524.72	11,701,506.80
XOF			105,343,869.50	1,252,538.61
ZAR			8,313.26	4,386.91
BYR	1,848.45	5,873.82		
<b>Short-term borrowings</b>		<b>928,516,101.13</b>		663,879,689.22
USD	135,000,000.00	926,532,000.00	100,000,000.00	653,420,000.00
EUR	252,838.70	1,984,101.13		
XOF			879,704,728.00	10,459,689.22
<b>Non-current liabilities due within one year</b>				9,752,875.00
EUR			1,250,000.00	9,752,875.00
<b>Long-term loans</b>		<b>78,473,000.00</b>		39,011,500.00
EUR	10,000,000.00	78,473,000.00	5,000,000.00	39,011,500.00
<b>Long-term accounts payable</b>		<b>8,971,437.07</b>		
XOF	750,120,56.00	8,971,437.07		

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

#### 3. Market risk (Continued)

##### (1) Exchange rate risk (Continued)

Sensitivity analysis:

By the end of December 31, 2018, as for the Group of foreign currency of financial assets and financial liabilities, if the RMB against the US dollar and euro currency appreciation or depreciation of 10% and other factors remain unchanged, the Group will reduce or increase the tax net profit of about RMB35,446,273.45 (RMB17,677,186.39 yuan in 2017).

##### (2) Interest rate risk

The interest rate risk of the Group arises from bank loans. Financial liabilities with floating interest rates push the Group to face the cash flow interest rate risk. Financial liabilities with fixed interest rates push the Group to face the fair value interest rate risk. The Group needs to decide a relative proportion between contracts with floating interest rates and contracts with fixed interest rates according to the market environment.

The Group's financial department continuously monitors the Group's interest rate level. Rising interest rates will increase the cost of new interest-bearing liabilities and the interest expenditure of interest-bearing liabilities that the Group has not yet paid at floating interest rates, which will have a significant negative impact on the Group's financial performance. The management will make timely adjustments based on the latest market conditions. These adjustments may be made by arranging interest rate swaps to reduce interest rate risk.

As of December 31, 2018, the Group's long-term interest-bearing liabilities are mainly floating rate contracts denominated in RMB and Euro, amounting to RMB868,473,000. (Details in VI Note 38 Long-term Loans)

Sensitivity analysis:

By the end of December 31, 2018, if the interest rate calculated at floating interest rate has increased or decreased by 1%, while other factors remain unchanged, the Group's pre-tax profit will decrease or increase by about RMB8,684,730.00. (RMB12,987,643.75 in year 2017).

The above sensitivity analysis assumption of interest rate changes has taken place on the balance sheet date and have been applied to all loans obtained by our company at floating interest rates.

##### (3) Price risk

Price risk refers to the risk of fluctuation caused by market price changes other than exchange rate risk and interest rate risk. It mainly comes from the changes of commodity price, stock market index, equity instrument price and other risk variables.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### X. DISCLOSURE OF FAIR VALUE

#### 1. financial instruments measured at fair value

In December 31, 2018, the Group expose the book value of financial asset instruments measured at fair value at three levels which is based on the lowest level of the three levels of the important input values used in the measurement of fair value. The three levels are defined as following:

First level: Unadjusted quotations of the same assets or liabilities that can be obtained on the day of measurement in the active market.

Second level: An input value directly or indirectly observable except for the first level of input value.

Input values in second level included: 1) Quotations similar to assets or liabilities in active markets. 2) Quotations of the same or similar assets or liabilities in an inactive market. 3) Other observable input values other than quotations, such as: The interest rate and yield curve, implied volatility and credit margin that can be observed during the normal quotation interval. 4) Input value of market verification.

Third level: The unobservable input value of the related assets or liabilities.

#### 2. Ending fair value

##### (1) continuous fair value measurement

Item	Ending fair value			Total
	The first level of fair value measurement	The second level of fair value measurement	The third level of fair value measurement	
Subtotal of Financial Assets Measured at Fair Value and Their Changes Included in Current Profits and Losses				
Investments on debt instrument	295,500.00			295,500.00
Investments on equity instrument	13,762,851.64			13,762,851.64
Subtotal of designated as financial assets measured at fair value and its movement recorded through profit and loss				
Investments on debt instrument		883,177,616.52		883,177,616.52
Investments on equity instrument		578,743.73		578,743.73
Derivative financial assets				
Total assets	14,058,351.64	883,756,360.25		897,814,711.89
Derivative financial liabilities		2,727,592.84		2,727,592.84
Total liabilities		2,727,592.84		2,727,592.84

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### X. DISCLOSURE OF FAIR VALUE (CONTINUED)

#### 3. Determination basis of the market price of the item measured using the first level of fair value measurement continuously and non-continuously

The fair value of financial instruments traded in the active market is accounted for the market price on the financial statement date. The market is regarded active when the offer can be real-timely and regularly acquired from the stock exchange, traders, brokers, insiders, pricing services, or regulatory agencies and the offer represents actual and regular market transactions with an even bargain reference. The market price of financial assets held by the Group is the bid price at that time. These financial instruments are in the first level. Instruments in the first level include equity investments of the Heng Seng index, the composite index of Shanghai stock exchange and component index of Shenzhen stock exchange (classified as financial assets measured at fair value and its movement recorded through profit and loss or available-for-sale financial assets).

#### 4. Valuation techniques and qualitative and quantitative information on important parameters adopted for the second level of continuous and non-continuous fair value measurement

Valuation techniques can be used to determine the fair value of financial instruments not traded in the active market (such as over-the-counter (OTC) derivatives). Valuation techniques should use observable market data as much as possible and use specific estimations as less as possible. If all significant inputs are observable data when calculating the fair value of a financial instrument, the financial instrument is in the second level.

The Company hired Beijing Zhuoxin Dahua Asset Appraisal Co., Ltd. to issue the valuation report for the investment in equity instruments held by the Company. The valuation method of equity instruments in valuation report is market method- comparisons of listed companies and market method- market transactions method.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### X. DISCLOSURE OF FAIR VALUE (CONTINUED)

#### 5. Valuation techniques and qualitative and quantitative information on important parameters adopted for the third level of continuous and non-continuous fair value measurement

If one or more of the significant inputs are not based on observable market data, the financial instrument is then listed in the third level.

Specific methods of valuating financial instruments include:

- (1) Market price or industry price of similar financial instruments.
- (2) The fair value of interest rate swap is calculated based on discounted value of estimated future cash flows by observable yield curve.
- (3) Present value discounted from fair value of foreign exchange forward contracts calculated by the exchange rate on the settlement date.
- (4) Other methods such as discounted value of cash flow analysis which is used to calculate the fair value of the rest other financial instruments.

#### 6. The continuous fair value measurement project, the reason why there is transformation or no transformation between different levels in this period, the reasons for the conversion and the policy of determining the time point of conversion

The above continuous fair value measurement project of the Group has not changed between different levels in this year.

#### 7. The changes in the valuation technology and the cause of the change in this period

The fair value valuation technology of the Group's financial instruments has not changed in this year.

#### 8. The fair value of financial assets and financial liabilities that are not measured at fair value

Financial assets and liabilities that are not measured at fair value are mainly including: accounts receivable, short-term loans, accounts payables, non-current liabilities and long-term loans due within one year and an equity tool that is not quoted in an active market and its fair value is not reliably measured.

There is little difference between the book value and the fair value of the financial assets and liabilities that are not measured at fair value.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION

#### 1. Information of the parent company of the enterprise

Name of controlling shareholder	Registration place	Business nature	Registered capital <i>(RMB ten thousand)</i>	Percentage of shareholding in the Company <i>(%)</i>	Percentage of voting right in the Company <i>(%)</i>
YTO Group Corporation	Henan Luoyang	Production and sales of large and small tractors, construction machinery, diesel engines, etc.	302,374.96	41.66	41.66

(1) Explanation of the parent company of the Company: N/A

(2) The ultimate controlling party of the Company is China National Machinery Industry Corporation Ltd.

China National Machinery Industry Corporation Ltd, with the registered address and the operation location in Beijing, whose business scope includes: domestic and foreign contracting of large equipment and projects, organization of the major technology and equipment research in the industry, development and research production and sales of motor vehicles, cars and auto parts; contracted overseas projects and domestic international bidding; import and export businesses; held economic and trade exhibitions overseas and organization of domestic enterprises to participate or hold exhibitions overseas. The registered capital of the Group is RMB26,000,000,000.00.

#### 2. Subsidiaries of the Company: refer to the related content in the Note VIII 1. Interests in subsidiaries for the details of the subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 3. The Company's Joint Ventures and Associated Enterprises

Refer to the related content in the Note VIII 3. Significant joint ventures or associates for the details.

There are transactions incurred between the joint ventures and associates with the Company in this year or balances due to or from the Company realized in prior period carried forward.

Other associated party names	Relationship to other related parties	Note
YTO (Luoyang) fuel injection Co., Ltd.	the Company's subsidiary and the joint venture of the controlling shareholder of the Company	the Company hold shareholding 10.57%
Luoyang Tractor Research Institute Co., Ltd.	the Company's subsidiary and the joint venture of the controlling shareholder of the Company	the Company hold share holding 49%
Luoyang Xiyuan vehicle and Power Inspection Institute Co., Ltd.	the Company's subsidiary and the joint venture of the controlling shareholder of the Company	The subsidiary of Luoyang Tractor Research Institute Co., Ltd
YTO (Luoyang) Rico Automobile Co. Ltd.	The joint venture of the controlling shareholder of the Company	the Company hold shareholding 45%

*Note:* According to the board rules of the Hongkong stock exchange, the Company holding a share of 10% or more of the holding shareholders of the Company is a joint venture of the controlling shareholder of the Group.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 4. Other related parties

Name of other related parties	Relationship to the Company
YTO (Luoyang) Special Purpose Vehicle Co., Ltd	Under common control
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	Under common control
YTO (Luoyang) Tobacco Machinery Co., Ltd.	Under common control
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd	Under common control
YTO (Luoyang) Logistics Co., Ltd	Under common control
YTO (Luoyang) Lubricants Co., Ltd	Under common control
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	Under common control
YTO (Luoyang) Huide Tooling Co., Ltd	Under common control
YTO (Luoyang) Dongchen Mold Technology Co., Ltd.	Under common control
YTO (Heilongjiang) Dongfanghong Industrial Park Co., Ltd	Under common control
Luoyang Zhongshou Machinery Equipment Co., Ltd.	Under common control
Luoyang No. 1 Trailer Driver Training School Co., Ltd.	Under common control
Luoyang Tianhui Energy Engineering Co., Ltd	Under common control
Luoyang Fossett auto incorporate company	Under common control
Luoyang Duoan Advertising Co., Ltd	Under common control
Dongfanghong (Luoyang) Culture Communication Centre	Under common control
Beijing Heavy Transport Machinery Design Research Institute	Same ultimate control
Changlin incorporated company	Same ultimate control
SINOMACH-HI Equipment Group Co., Ltd.	Same ultimate control
Fuyang Bearing Co., Ltd.	Same ultimate control
Guangzhou Jisheng Lubrication Technology Co., Ltd.	Same ultimate control
Guangzhou Optical Sky Materials Technology Co., Ltd.	Same ultimate control
Guangzhou Optical Sky Environmental Protection Technology Co., Ltd.	Same ultimate control
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd	Same ultimate control
SINOMACH-HI (Luoyang) Co., Ltd	Same ultimate control
The Sixth Design Institute Co., Ltd of the Ministry of Machinery Industry	Same ultimate control
The Fourth Design Institute Co., Ltd of the Ministry of Machinery Industry	Same ultimate control
The Fifth Design Institute of the Ministry of Machinery Industry	Same ultimate control
Jiangsu Meida Mechanical and Electrical Technology Co., Ltd.	Same ultimate control
Luoyang Bearing Research Institute Co., Ltd.	Same ultimate control
Luoyang Zhaoyan Science and Technology Co., Ltd.	Same ultimate control
YTO (Luoyang) Engineering Machinery Co., Ltd	Same ultimate control
Changsha Gas-electric Auto Parts Co., Ltd	Same ultimate control
China SINOMACH Heavy Industry Corporation	Same ultimate control
China Machine Tool Corporation	Same ultimate control
The Fourth Construction of China Machinery Industry Co., Ltd.	Same ultimate control
China Machinery Industry Machinery Engineering Co., Ltd.	Same ultimate control
China Machinery Industry Construction Group Co., Ltd.	Same ultimate control
China Academy of Agricultural Mechanization	Same ultimate control
China Automobile Industrial Engineering Co., Ltd.	Same ultimate control
China Heavy Machinery Research Institute stock company	Same ultimate control
China (Tianjin) Automotive Equipment Co., Ltd.	Same ultimate control
Xinjiang Zhongshu Agricultural and Animal Husbandry Machinery Co., Ltd.	Same ultimate control

The explanation of other related parties: The ultimate controlling party of the Company is China Machinery Industry Group Co., Ltd., so the subsidiaries controlled by China Machinery Industry Group Co., Ltd. are all related parties of the Company. Only the parties concerned with the Company are disclosed herein.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions

(1) *The transactions between subsidiaries that have control relations and have been incorporated into the Company's consolidated financial statements and parent company have been offset.*

(2) *Significant transactions with SINOMACH and its subsidiaries*

Item	Amount in this period	Amount in last period
Sales of raw materials and components	13,785,642.98	15,873,901.60
Purchase of raw materials and components	62,898,788.45	117,594,799.38
Interest income	12,056,129.37	6,868,164.32
Pay clients' deposit interest	1,041,690.26	592,832.41
Commission income	123,376.94	144,123.95
Payment of research and development expense	2,264,150.94	

(3) *Significant transactions between the Group and YTO Group and the subsidiaries*

Item	Amount in this period	Amount in last period
Sales of raw materials and components	248,046,773.93	312,295,650.77
Purchase of raw materials and components	402,883,563.65	420,601,443.94
Payment and payable of power expense	160,450,955.48	154,475,758.31
Payment and payable of comprehensive services and transportation fees	148,477,803.00	171,253,417.11
Payment and payable of land rental expenses	12,274,161.50	12,666,716.00
Payment and payable of buildings rental expenses	8,896,383.63	9,328,322.82
Payment and payable of equipment rental expenses	3,832,438.58	4,297,625.48
Rental income of leasing buildings and equipment	4,314,177.09	2,118,989.73
Land lease income	2,813,192.00	1,413,977.50
Trademark use income	323,584.91	215,435.85
Purchase of plant and equipment	3,729,845.67	14,333,749.47
Interest income	38,012,971.66	30,371,954.53
Pay clients' deposit interest	13,167,248.19	11,734,478.68
Commission income	364,279.71	213,590.73
Payment received of research and development expense	1,529,635.21	2,941,919.53

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

## XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

### 5. Related party transactions (Continued)

**(4) Related party transactions between the Group and the joint ventures and associates  
(including the joint ventures and associates of SINOMACH and YTO Group Corporation)**

Item	Amount in this period	Amount in last period
Sales of raw materials and components	40,306,976.67	71,110,925.96
Rental income	7,684,716.11	7,632,698.54
Purchase raw materials and parts	287,253,710.30	338,959,061.56
Pay clients' deposit interest	2,235,400.03	981.52
Payment of research and development costs	105,736,226.45	109,880,275.47
Providing technology and testing services	303,420.25	371,990.64
Interest income	8,708.75	
	<u>8,708.75</u>	

**(5) Borrowing and lending between related parties**

Item	Increase in this period	Decrease in this period
Loans granting(including Notes discounted)	1,275,362,758.72	1,247,916,988.97
Absorption of deposits and interbank deposits	15,236,344,057.62	14,938,710,626.61
Loans from other banks	350,000,000.00	650,000,000.00
Short term loan	700,000,000.00	700,000,000.00
	<u>700,000,000.00</u>	<u>700,000,000.00</u>

**(6) Related party assets transfer and debt restructuring**

N/A

**(7) Remuneration of key management personnel (Unit: RMB10 thousand)**

Item	Amount incurred in this period	Amount incurred in last period
Fees	50.85	45.66
Salaries and other benefits	673.91	1,004.33
Retirement benefits scheme contribution	48.46	47.44
	<u>773.22</u>	<u>1,097.43</u>
Total remuneration	<u>773.22</u>	<u>1,097.43</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions (Continued)

##### (7) Remuneration of key management personnel (Unit: RMB10 thousand) (Continued)

Analysis of key management personnel remuneration (Unit: RMB10 thousand):

Personnel and duties	Amount in this period			Total
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	
<b>Executive directors</b>				
Zhao, Yanshui		59.40	3.45	62.85
Zhu, Weijiang		53.51	3.45	56.96
Wu, Yong		59.41	3.45	62.86
<b>Non-executive directors</b>				0.00
Yin Dongfang	1.43			1.43
Li, Hepeng	1.17			1.17
Xie, Donggang	1.42			1.42
Li, Kai	1.18			1.18
<b>Independent non-executive directors</b>				0.00
Wang Yuru	1.81			1.81
Xue Lipin	1.94			1.94
Yu Zengbiao	8.91			8.91
Yang, Minli	8.64			8.64
<b>Supervisors</b>				0.00
Xu Weilin				0.00
Zhang Bin				0.00
Wang Hongbin		34.81	3.45	38.26
Yang Kun		25.69	3.45	29.14
<b>Key management personnel</b>				0.00
Wang, Kejun (Deputy general manager)		45.70	3.45	49.15
Liu, Jiguo (Deputy general manager)		46.51	3.45	49.96
Su, Wensheng (Deputy general manager)		51.85	3.46	55.31

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION  
(CONTINUED)**

**5. Related party transactions (Continued)**

**(7) Remuneration of key management personnel (Unit: RMB10 thousand) (Continued)**

Analysis of key management personnel remuneration (Unit: RMB10 thousand): (Continued)

Personnel and duties	Amount in this period			Total
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	
<b>Other key management personnel</b>				<b>0.00</b>
Yao, Weidong (Chief financial officer)		52.07	3.45	55.52
Yu, Li'na (Deputy general manager and secretary of the board of directors)		52.13	3.45	55.58
Wang Erlong (Former Executive Director and Vice-Chairman)		49.61	3.60	53.21
Wu Delong (Former Independent Non-Executive Director)	6.93			6.93
Xing Min (former independent non-executive director)	6.79			6.79
Ping An Li (former Chairman of the Board of Supervisors)	0.00	33.74		33.74
Wang Yong (former supervisor)	5.08			5.08
Huang Ping (former supervisor)	5.55			5.55
Wang Jianjun (former supervisor)		32.99	3.45	36.44
Zhao Guozhong (former supervisor)		28.72	3.45	32.17
Song Yuping (former deputy general manager)		47.77	3.45	51.22
<b>Total</b>	<b>50.85</b>	<b>673.91</b>	<b>48.46</b>	<b>773.22</b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions (Continued)

(7) *Remuneration of key management personnel (Unit: RMB10 thousand) (Continued)*

Personnel and duties	Amount in last period			Total
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	
<b>Executive directors</b>				
Zhao, Yanshui		88.74	3.45	92.19
Wang, Erlong		89.29	6.04	95.33
Wu, Yong		103.57	3.45	107.02
<b>Non-executive directors</b>				
Yin Dongfang				
Li, Hepeng	0.46			0.46
Xie, Donggang	0.57			0.57
Li, Kai	0.59			0.59
<b>Independent non-executive directors</b>				
Xing, Min	7.73			7.73
Wu, Delong	7.94			7.94
Yu, Zengbiao	8.18			8.18
Yang, Minli	7.83			7.83
<b>Supervisors</b>				
Li, Ping'an		52.58	3.45	56.03
Wang, Jianjun		32.98	3.45	36.43
Zhao, Guozhong		27.97	3.45	31.42
Wang, Yong	5.95			5.95
Huang, Ping	6.41			6.41
<b>Key management personnel</b>				
Wang, Kejun ( <i>Deputy general manager</i> )		69.79	3.45	73.24
Liu, Jiguo ( <i>Deputy general manager</i> )		77.58	3.45	81.03
Zhu, Weijiang ( <i>Deputy general manager</i> )		93.58	3.45	97.03
Su, Wensheng ( <i>Deputy general manager</i> )		92.72	3.45	96.17
Song, Yuping ( <i>Deputy general manager</i> )		91.13	3.45	94.58
<b>Other key management personnel</b>				
Yao, Weidong ( <i>Chief financial officer</i> )		91.59	3.45	95.04
Yu, Li'na ( <i>Deputy general manager and secretary of the board of directors</i> )		92.81	3.45	96.26
Total	45.66	1004.33	47.44	1097.43

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION  
(CONTINUED)**

**5. Related party transactions (Continued)**

*(8) Accounts receivable and payable with related parties*

*a. Notes receivable*

**Related parties**

**Notes receivable between the Group and  
YTO Group and its subsidiaries**

YTO (Luoyang) Kintra Equipment Science &  
Technology Co., Ltd

**Ending balance**

Beginning balance

**21,590,807.83**

**3,500,000.00**

**10,000.00**

**4,383,807.83**

**13,697,000.00**

**Notes Receivable between the Group and  
Joint Venture or associates**

ZF YTO (Luoyang) Bridge Co., Ltd.

**1,080,000.00**

**1,080,000.00**

**Notes receivable between the Group and  
SINOMACH and its subsidiaries**

YTO (Luoyang) Engineering Machinery Co., Ltd

**100,000.00**

**100,000.00**

Total

**22,770,807.83**

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions (Continued)

##### (8) Accounts receivable and payable with related parties (Continued)

##### b. Accounts receivable

Related parties	Ending balance		Beginning balance	
	Book value	Bad debt allowance	Book value	Bad debt allowance
<b>Accounts receivable between the Group and YTO Group and its subsidiaries</b>	<b>2,270,687.61</b>	<b>482,676.74</b>	2,561,496.51	241,455.33
Beijing Lifting and Transportation Machinery Design Research Institute Co., Ltd.	465,702.00	4,657.02	51,840.00	518.4
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd	975,999.05	415,069.65	1,277,692.82	223,859.29
SINOMACH-HI (Luoyang) Co., Ltd	76.56	0.77		
The Fourth Design Institute Co., Ltd of the Ministry of Machinery Industry	135,800.00	20,370.00	135,800.00	2,716.00
YTO (Luoyang) Engineering Machinery Co., Ltd			191,329.60	1,913.30
Luoyang Bearing Research Institute Co., Ltd.			81,234.09	812.34
China (Tianjin) Automotive Equipment Co., Ltd.	170,000.00	25,500.00	340,000.00	6,800.00
China SINOMACH Heavy Industry Corporation	24,180.00	12,090.00	483,600.00	4,836.00
Jiangsu Meida Mechanical and Electrical Technology Co., Ltd.	498,930.00	4,989.30		
<b>Accounts receivable between the Group and the shareholder</b>	<b>13,791,673.82</b>	<b>2,330,666.74</b>	89,516,635.22	895,345.84
YTO Group Corporation	13,791,673.82	2,330,666.74	89,516,635.22	895,345.84

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

## XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

### 5. Related party transactions *(Continued)*

#### *(8) Accounts receivable and payable with related parties (Continued)*

##### *b. Accounts receivable (Continued)*

Related parties	Ending balance		Beginning balance	
	Book value	Bad debt allowance	Book value	Bad debt allowance
<b>Accounts receivables between the Group and SINOMACH and its subsidiaries</b>	<b>40,613,805.16</b>	<b>2,495,929.57</b>	26,770,567.97	812,944.05
Luoyang Fossett auto incorporate company	158,624.00	1,586.24		
Luoyang Zhongshou Machinery Equipment Co., Ltd.	7,608,690.79	289,476.55	3,950,365.42	64,684.64
YTO (Heilongjiang) Dongfanghong Industrial Park Co., Ltd	124,466.49	1,244.66	417,887.57	4,178.88
YTO (Luoyang) Huide Tooling Co., Ltd	623,740.59	9,554.46		
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	5,242,766.62	1,219,873.48	5,922,226.02	263,189.11
YTO (Luoyang) Lubricants Co., Ltd			35,097.45	350.97
YTO (Luoyang) Logistics Co., Ltd	2,301.50	23.02	16,300.00	297.91
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd	21,527,850.59	215,278.50	12,104,272.34	121,042.72
YTO (Luoyang) Tobacco Machinery Co., Ltd.	1,070,460.00	10,704.60		
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	3,380,141.37	33,801.41	3,449,655.96	34,496.56
YTO (Luoyang) Special Purpose Vehicle Co., Ltd	874,763.21	714,386.65	874,763.21	324,703.26
<b>Accounts receivable between the group and joint venture or associates</b>	<b>1,732,524.47</b>	<b>17,325.25</b>	2,999,292.96	48,127.03
China YTO Kawi (Luoyang) Vehicle Co., Ltd.	57,568.50	575.69		
ZF YTO (Luoyang) axle Co. Ltd.	1,674,955.97	16,749.56	2,765,798.25	27,657.98
YTO (Luoyang) Rico Automobile Co. Ltd.			233,494.71	20,469.05
<b>Total</b>	<b>58,408,691.06</b>	<b>5,326,598.30</b>	121,847,992.66	1,997,872.25

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions (Continued)

##### (8) Accounts receivable and payable with related parties (Continued)

###### c. Advance to suppliers

Related parties	Ending balance	Beginning balance
<b>Advance to suppliers between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)</b>	<b>12,713.50</b>	1,723,900.00
SINOMACH-HI Equipment Group Co., Ltd.	—	1,499,700.00
China Heavy Machinery Research Institute stock company	<b>12,713.50</b>	224,200.00
<b>Advance to suppliers between the Group and the shareholder</b>	<b>6,870,228.44</b>	1,223,271.70
YTO Group Corporation	<b>6,870,228.44</b>	1,223,271.70
<b>Advance to suppliers between the Group and YTO Group and its subsidiaries</b>	<b>4,415,270.60</b>	5,037,441.64
Luoyang Zhongshou Machinery & Equipment Co., Ltd	<b>77,920.40</b>	3,029,281.94
YTO (Luoyang) Huide Tooling Co., Ltd	<b>245,776.00</b>	1,500,000.00
Luoyang Fossett auto incorporate company	<b>52,400.00</b>	312,330.00
YTO (Luoyang) Zhongcheng Machinery Co., Lt	<b>4,000,000.00</b>	156,711.90
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	—	20,077.20
YTO (Luoyang) Dongchen Mold Technology Co., Ltd.	<b>16,850.60</b>	19,040.60
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd	<b>22,323.60</b>	—
Total	<b>11,298,212.54</b>	7,984,613.34

###### d. Dividends receivable

Related parties	Ending balance	Beginning balance
China Machinery Finance Co., Ltd.		462,076.72
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	<b>87,810.69</b>	

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION  
(CONTINUED)**

**5. Related party transactions (Continued)**

**(8) Accounts receivable and payable with related parties (Continued)**

*e. Other receivables*

Related parties	Ending balance		Beginning balance	
	Book value	Bad debt allowance	Book value	Bad debt allowance
<b>(1) Other receivables between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)</b>	<b>180,207.00</b>	<b>180,207.00</b>	2,783,473.91	206,239.67
China National Machinery Industry Corporation			2,603,266.91	26,032.67
YTO (Luoyang) Engineering Machinery Co., Ltd	<b>96,314.00</b>	<b>96,314.00</b>	96,314.00	96,314.00
SINOMACH-HI (Luoyang) Construction Machinery Co., Ltd	<b>83,893.00</b>	<b>83,893.00</b>	83,893.00	83,893.00
<b>(2) Other receivables between the Group and the majority shareholder</b>	<b>1,883,374.14</b>	<b>1,119,589.73</b>	11,562,324.51	1,059,874.74
YTO Group Corporation	<b>1,883,374.14</b>	<b>1,119,589.73</b>	11,562,324.51	1,059,874.74
<b>(3) Other receivables between the Group and YTO Group and its subsidiaries</b>	<b>3,648,260.00</b>	<b>36,482.60</b>	3,625,743.21	545,283.57
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	<b>3,648,116.00</b>	<b>36,481.16</b>	3,586,331.70	537,949.76
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	<b>144</b>	<b>1.44</b>	32,401.72	324.02
Luoyang Zhongshou Machinery & Equipment Co., Ltd			7,009.79	7,009.79
<b>(4) Other receivables between the group and other parties</b>	<b>484,646.57</b>	<b>4,846.47</b>	659,003.26	6,590.03
ZF YTO (Luoyang) axle Co. Ltd.	<b>484,646.57</b>	<b>4,846.47</b>	659,003.26	6,590.03
<b>Total</b>	<b>6,196,487.71</b>	<b>1,341,125.80</b>	<b>18,630,544.89</b>	<b>1,817,988.01</b>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions (Continued)

##### (8) Accounts receivable and payable with related parties (Continued)

##### f. Loans and advances

Related parties	Ending balance		Beginning balance	
	Book value	Bad debt allowance	Book value	Bad debt allowance
<b>Deposit of Capital Discounted:</b>				
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd	76,120,767.33	1,903,019.18	77,515,123.96	1,937,878.09
YTO (Luoyang) Engineering Machinery Co., Ltd	9,726,603.70	243,165.09		
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	1,189,769.81	29,744.25	1,042,823.61	26,070.59
YTO Group Corporation	8,697,244.10	217,431.10	6,667,880.26	166,697.01
SINOMACH-HI (Luoyang) Co., Ltd			30,080,210.62	752,005.27
<b>Loans:</b>				
SINOMACH-HI (Luoyang) Co., Ltd	56,000,000.00	8,120,000.00	61,000,000.00	8,845,000.00
Luoyang Zhongshou Machinery & Equipment Co., Ltd	64,600,000.00	1,615,000.00	269,400,000.00	6,735,000.00
YTO (Heilongjiang) Dongfanghong Industrial Park Co., Ltd	313,500,000.00	7,837,500.00	216,500,000.00	5,412,500.00
YTO (Luoyang) Huide Tooling Co., Ltd	6,000,000.00	150,000.00	5,950,000.00	148,750.00
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	7,050,000.00	1,092,750.00	35,750,000.00	893,750.00
YTO (Luoyang) Tobacco Machinery Co., Ltd.	5,000,000.00	125,000.00		
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	10,000,000.00	250,000.00	8,000,000.00	200,000.00
YTO Group Corporation	420,000,000.00	10,500,000.00	230,000,000.00	5,750,000.00
YTO (Luoyang) Special Purpose Vehicle Co., Ltd			10,000,000.00	1,450,000.00

##### g. Short-term borrowings

Related parties	Ending balance	Beginning balance
YTO Group Corporation	700,000,000.00	700,000,000.00

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

## XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

### 5. Related party transactions (Continued)

*(8) Accounts receivable and payable with related parties (Continued)*

*h. Collecting deposits and granting loans*

Company	Ending balance	Beginning balance
Luoyang Tractor Research Institute Co., Ltd.	92,904,299.77	74,675,966.33
Luoyang Xiyuan Vehicle and Power Inspection Co., Ltd.	56,218,614.97	51,908,588.08
Luoyang Towing Vehicle Engineering Technology Co., Ltd.		4,443,656.57
YTO Group Corporation	895,643,904.20	608,817,950.60
Luoyang Zhongshou Machinery Equipment Co., Ltd.	20,403,282.34	2,243,182.41
YTO (Heilongjiang) Dongfanghong Industrial Park Co., Ltd	3,788,070.23	2,570,307.36
YTO (Luoyang) Lubricants Co., Ltd	15,426,731.85	29,603,792.96
YTO (Luoyang) Special Purpose Vehicle Co., Ltd	146,811.89	3,066,666.58
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	16,692,103.92	16,675,624.52
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd	5,593,784.43	2,583,288.12
YTO (Luoyang) Logistics Co., Ltd	10,613,182.01	7,794,470.30
Dongfanghong (Luoyang) Culture Communication Centre	3,477,547.17	3,127,514.76
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	1,894,221.77	5,070,202.46
YTO (Luoyang) Huide Tooling Co., Ltd	1,767,624.96	3,422,775.30
Luoyang Tianhui Energy Engineering Co., Ltd	1,389,134.14	320,059.88
Luoyang No.1 Trailer Driver Training School Co., Ltd.	706,612.03	8,500.00
YTO (Luoyang) Dongchen Mold Technology Co., Ltd.		400.91
Luoyang Fossett auto incorporate company	8,950,676.19	379,778.04
YTO (Luoyang) Tobacco Machinery Co., Ltd.	3,659,345.44	491,461.57
SINOMACH-HI (Luoyang) Co., Ltd	39,908,630.44	39,210,678.58
YTO (Luoyang) Fuel Injection Co., Ltd.	6,736,684.96	13,557,123.19
YTO (Luoyang) Engineering Machinery Co., Ltd	863.46	7,676.21
YTO (Luoyang) Construction Machinery Co., Ltd.		20,083.14
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd	27,217.36	
Yituo (Luoyang) Rico Automobile Co., Ltd.	3,419.54	9,708.90
China YTO Kawi (Luoyang) Vehicle Co., Ltd.	2,493.92	2,483.33

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions (Continued)

##### (8) Accounts receivable and payable with related parties (Continued)

##### i. Loans from other banks

Related parties	Ending balance	Beginning balance
China Machinery Finance Co., Ltd.		300,000,000.00
Total		300,000,000.00

##### j. Accounts payable

Related parties	Ending balance	Beginning balance
<b>(1) Accounts payables between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)</b>	<b>13,302,677.03</b>	20,606,731.90
The Fourth Design Institute Co., Ltd of the Ministry of Machinery Industry	1,630,108.85	9,434,656.00
China Automobile Industrial Engineering Co., Ltd.	7,032,400.00	7,040,950.00
SINOMACH-HI Equipment Group Co., Ltd.	147,300.00	1,647,000.00
Changsha Gas-electric Auto Parts Co., Ltd	132,586.99	1,249,474.67
Fuyang Bearing Co., Ltd.	3,781,101.77	600,713.57
The Sixth Design Institute Co., Ltd of the Ministry of Machinery Industry	232,910.00	299,310.00
The Fifth Design Institute of the Ministry of Machinery Industry	161,600.04	161,600.04
China National Machine Tools Corporation	99,492.94	99,492.94
YTO (Luoyang) Engineering Machinery Co., Ltd	52,000.00	70,705.00
The Fourth Construction of China Machinery Industry Co., Ltd.	2,829.68	2,829.68
Beijing Zhonghuo Cultural Media Co., Ltd.	28,800.00	
Xinjiang Zhongshu Agricultural and Animal Husbandry Machinery Co., Ltd.	1,546.76	
<b>(2) Accounts payable between the Group and shareholder</b>	<b>6,285,980.14</b>	3,003,054.78
YTO Group Corporation	6,285,980.14	3,003,054.78

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION  
(CONTINUED)**

**5. Related party transactions (Continued)**

**(8) Accounts receivable and payable with related parties (Continued)**

*j. Accounts payable (Continued)*

Related parties	Ending balance	Beginning balance
<b>(3) Accounts payable between the Group and YTO Group and its subsidiaries</b>	<b>38,730,925.25</b>	54,892,238.34
YTO (Luoyang) Logistics Co., Ltd	<b>16,270,759.92</b>	26,420,573.38
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	<b>6,525,948.42</b>	9,960,679.25
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	<b>5,081,131.65</b>	7,560,663.99
Luoyang Tianhui Energy Engineering Co., Ltd	<b>2,325,471.33</b>	3,902,605.40
YTO (Luoyang) Huide Tooling Co., Ltd	<b>2,682,626.25</b>	2,772,531.98
YTO (Luoyang) Lubricants Co., Ltd	<b>411,974.14</b>	2,688,107.91
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd	<b>5,068,350.54</b>	674,709.89
YTO (Luoyang) Special Purpose Vehicle Co., Ltd	-	518,847.54
Luoyang Duoan Advertising Co., Ltd	<b>252,019.00</b>	187,711.00
Dongfanghong (Luoyang) Culture Communication Centre	<b>10,064.00</b>	119,240.00
YTO (Luoyang) Special Purpose Vehicle Co., Ltd	<b>12,480.00</b>	73,840.00
Luoyang Fossett auto incorporate company	<b>90,100.00</b>	12,728.00
<b>(4) Accounts payable between the group and other parties</b>	<b>6,369,164.17</b>	21,454,363.25
ZF YTO (Luoyang) axle Co. Ltd.	<b>5,351,915.31</b>	20,668,234.14
YTO (Luoyang) Rico Automobile Co. Ltd.	<b>1,017,248.86</b>	786,129.11
Total	<b>64,688,746.59</b>	99,956,388.27

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

#### 5. Related party transactions (Continued)

##### (8) Accounts receivable and payable with related parties (Continued)

##### k. Contractual liability

Related parties	Ending balance	Beginning balance
<b>(1) Advance from customers between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)</b>	<b>251,484.38</b>	489,132.59
SINOMACH-HI (Luoyang) Co., Ltd	<b>140,297.34</b>	489,132.59
China Machinery Heavy Industry Group Changlin Co., Ltd.	<b>71,400.00</b>	
YTO (Luoyang) Engineering Machinery Co., Ltd	<b>39,787.04</b>	
<b>(2) Advance from customers between the Group and the shareholder</b>	<b>931,672.22</b>	6,209,652.14
YTO Group Corporation	<b>931,672.22</b>	6,209,652.14
<b>(3) Advance from customers between the Group and YTO Group and its subsidiaries</b>	<b>638,227.80</b>	79,585.00
Luoyang Fossett auto incorporate company		66,000.00
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	<b>638,227.80</b>	13,585.00
<b>(4) Advance from customers between the group and other parties</b>	<b>6,266,489.90</b>	1,627,931.90
China YTO Group Linhai Vehicle Co., Ltd.	<b>65,829.00</b>	
ZF YTO (Luoyang) axle Co. Ltd.	<b>6,200,658.28</b>	1,627,931.90
China YTO Kawi (Luoyang) Vehicle Co., Ltd.	<b>2.62</b>	
Total	<b>8,087,874.30</b>	8,406,301.63

##### (9) Related Party Commitments

N/A

### XII. SHARE PAYMENT

The Group does not pay shares.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XIII. COMMITMENT AND CONTINGENCIES

#### 1. Commitment

- (1) *Foren investment contracts and related financial expenditures that have not yet been fulfilled or not fully fulfilled*

N/A

- (2) *Outsourcing contract with significant amount that was signed and performing or commencing to perform and its financial impacts*

N/A

- (3) *Leased agreement that was signed and performing or commencing to perform and its financial impact*

- a. *As a financial lessor, the Group's future minimum rental receipts for agricultural machinery products are as follows:*

Period	Amount in this period	Amount in last period
Within 1 year	8,705,090.00	
1-2 years	14,734,350.00	
2-3 years	1,882,000.00	
After 3 years		
Total	<u>25,321,440.00</u>	

- b. *On December 31, 2018, the minimum future payments of irrevocable operating lease on rental items, assumed by the Group as the lessee, for buildings, machines, and equipment are as the following:*

Period	Amount in this period	Amount in last period
Within 1 year	4,965,688.40	5,586,360.57
1-2 years	1,280,857.44	425,600.00
2-3 years	-	-
After 3 years	-	-
Total	<u>6,246,545.84</u>	<u>6,011,960.57</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XIII. COMMITMENT AND CONTINGENCIES (CONTINUED)

#### 1. Commitment (Continued)

**(3) Leased agreement that was signed and performing or commencing to perform and its financial impact (Continued)**

- c. On December 31, 2018, the future minimum rental charges receivable by the Group as the lessor for the irrevocable operating leases of the leasing items of housing, buildings and equipment during the following period was summarized as below:

Period	Amount in this period	Amount in last period
Within 1 year	8,791,883.21	18,207,622.59
1-2 years	12,718,409.22	7,604,324.38
2-3 years	11,273,923.54	7,471,214.47
After 3 years	23,139,052.72	22,391,573.14
Total	55,923,268.69	55,674,734.58

*Note:* On January 2018 and ZF YTO (Luoyang) axle Co. Ltd. signed a five-year lease contract, rent is 7,460,724.38 yuan per year contract agreement. In January 2017, the subsidiary Yituo (Xinjiang) Dongfanghong Equipment Machinery Co., Ltd. signed an eight-year house lease contract with Xinjiang Gaoteng Yongye Automobile Sales Co., Ltd., and the contract stipulated that the annual house rent was RMB632,017.65.

Except for the above commitments, as of December 31, 2018, the Group has no other major undertakings that should be disclosed.

#### 2. Important contingencies existed on the balance sheet date

**(1) Pending proceeding or arbitration of contingencies and their financial implications**

The Group has no pending proceedings or arbitrations or matters

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XIII. COMMITMENT AND CONTINGENCIES (CONTINUED)

#### 2. Important contingencies existed on the balance sheet date (Continued)

##### (2) Contingencies resulted from external guarantees provided

As at December 31, 2018, details of the guarantees provided by the Group to other parties are as followings:

Entity guaranteed	Guarantee matters	Amount	Time period	Note
Buyer's Credit and Finance Leasing Business Customers	Buy farm machinery products	86,973,100.00	2017.08–2021.5	Note
Dongfanghong Commercial Credit Business Customer	Buy farm machinery products	117,708,700.00	2017.12–2019.06	
Total		204,681,800.00		

*Note:* In 2018, the Group and its subsidiary China YTO Group Finance Co., Ltd. (hereinafter referred to as "YTO Finance Company") signed the general agreement on credit business cooperation between the buyer of agricultural machinery tickets. The agreement stipulates that the distributors who sell agricultural machinery products of the Group or the authorized enterprises of the Group shall, when they are unable to pay all the money for the agricultural machinery products sold by the Group at one time, provide the buyer's credit service of the agricultural machinery tickets to the customers who purchase the designated products of the Group by the Group and its authorized enterprises after confirming the credit standing of the customers. That is, after a customer applies for an electronic bank acceptance bill issued by a dragging financial company, which is guaranteed by the group and accepted by a dragging financial company, the customer purchases agricultural machinery products from the group or its authorized enterprises by this ticket. In the process, the group bears joint and several liability guarantees for a dragging financial company. YTO Finance Company has approved a credit guarantee credit line of RMB800,000,000.00 for the buyer of agricultural machinery tickets approved by the Group. Credit period from July 1, 2018 to May 31, 2019.

*Note:* In 2018, the Group's subsidiary Luoyang Changxing Agricultural Machinery Co., Ltd. (hereinafter referred to as Changxing Company) and China YTO Group Co., Ltd. (hereinafter referred to as Finance Company) signed a product finance business cooperation agreement. Changxing Company recommended to YTO Finance Company after examining the sub-information, basic information, business financing amount and guarantee of customers who purchased their designated products. The financial company will provide financial services for customers who purchased the designated products of first party. Changxing Company is jointly and severally responsible for guaranteeing such business within the credit limit. The credit limit approved by YTO Finance Company for the product finance business of Changxing Company is RMB280,000,000.00. The credit period is from July 1, 2018 to May 31, 2019.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XIII. COMMITMENT AND CONTINGENCIES (CONTINUED)

#### 2. Important contingencies existed on the balance sheet date (Continued)

##### (2) Contingencies resulted from external guarantees provided (Continued)

*Note:* In 2018, the subsidiary YTO (Xinjiang) Dongfanghong Equipment Machinery Co., Ltd. (hereinafter referred to as Xinjiang Company) and China YTO Group Co., Ltd. (hereinafter referred to as YTO Finance Company) signed a product finance business cooperation agreement. After examining and verifying the relevant information, basic information, business financing amount and guarantee of customers who buy their designated products, Xinjiang company recommends to YTO Finance Company, which provides financial services of product finance business to customers who buy their designated products. Xinjiang company is jointly and severally responsible for guaranteeing such business within the credit limit. The credit limit approved by YTO Finance Company for the product finance business of Xinjiang Company is RMB10,000,000.00. The credit period is from July 18, 2018 to May 31, 2019.

*Note:* In 2018, the subsidiary YTO Heilongjiang Agricultural Equipment Co., Ltd. (hereinafter referred to as Heilongjiang Company) and China YTO Group Co., Ltd. (hereinafter referred to as YTO Finance Company) signed a product finance business cooperation agreement. After examining and verifying the relevant information, basic information, business financing amount and guarantee of customers who buy their designated products, Heilongjiang company recommends to YTO Finance Company, which provides financial services of product finance business to customers who buy their designated products. Heilongjiang company is jointly and severally responsible for guaranteeing such business within the credit limit. The credit limit approved by YTO Finance Company for the product finance business of Heilongjiang Company is RMB10,000,000.00. The credit period is from July 1, 2018 to May 31, 2019.

##### (3) Letter of guarantee and letter of credit

Opening bank	Beneficiary	Amount	Beginning date	Ending date
Beijing Tianning Temple Branch of China Everbright Bank Co., Ltd.	China Aviation International Complete Equipment Co., Ltd.	1,717,524.00	2018/11/26	2020/11/25
Beijing Tianning Temple Branch of China Everbright Bank Co., Ltd.	China Aviation International Complete Equipment Co., Ltd.	33,278.77	2018/12/18	2020/12/17
Beijing Tianning Temple Branch of China Everbright Bank Co., Ltd.	China Aviation International Complete Equipment Co., Ltd.	4,188.00	2018/12.24	2020/12/23
Jianxi Branch, Luoyang City, Agricultural Bank of China	Qingdao Aucma Import and Export Co., Ltd.	32,600.00	2017/8/30	2019/1/16
Jianxi Branch, Luoyang City, Agricultural Bank of China	AMPLE GALAXY LIMITED	6,863,200.00	2018/7/30	2018/11/30
Bank of China Luoyang Chang'an Road Branch	Henan Provincial Commerce Department	200,000.00	2009/11/20	Depending on business
Total		<u>8,850,790.77</u>		

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XIV. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

On February 27, 2019, the Company signed a property right transaction contract with China YTO Group Co., Ltd. and Luoyang Chenhan Agricultural Equipment Technology Co., Ltd. which is the second party. The contract stipulates that the Company and China YTO Group Limited will transfer their holdings of YTO (Luoyang) Handling Machinery Co., Ltd. which respectively accounts for 93.39% and 6.61% and RMB32.86 million of creditor's rights to the second party, with the transfer price of RMB46 million. By the date of the statement, the procedure for the change of industrial and commercial registration of YTO (Luoyang) Handling Machinery Co., Ltd. have been completed.

Except for the aforementioned events, the Group has no other significant subsequent events to disclose.

### XV. OTHER SIGNIFICANT MATTERS

#### 1. Correction of early accounting errors

##### (1) *Retrospective restatement*

No early accounting errors in the use of retrospective restatement are found in this reporting period.

##### (2) *Prospective approach*

No early accounting errors in the use of future applicable law are found in this reporting period

#### 2. Debt restructuring

N/A

#### 3. Asset swap

N/A

#### 4. Annuity plan

The Group has established annuity which is jointly paid by the Group and employees. The payment bases adopted by the Group and employees are both based on employee's actual salary for last year. For income of the employees which is more than 3 times of the average salary for Luoyang social employees, the base is the 3 times of such average salary. For income which is lower than the 60% of the average salary for Luoyang social employees, the base is the 60% of such average salary. The Group assumes 5%, and the amount is recognized as the costs of the Group. Employee assumes 2%, and the amount is recognized as withholding on behalf of the employees.

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XV. OTHER SIGNIFICANT MATTERS (CONTINUED)

#### 5. Discontinued operation

N/A

#### 6. Segment information

##### 1. *The basis for the determination of the segment report and the accounting policy*

The Group is based on internal organizational structure, management requirements, and internal reporting system as the basis for determining the operating segment. The business branch of the Group refers to a component that meets the following conditions at the same time:

- (1) This component can generate income and cost in daily activities.
- (2) The management can regularly evaluate the operating results of the component in order to determine the allocation of resources to it and evaluate its performance.
- (3) The accounting information, such as the financial situation, the operating results and the cash flow of the component, can be obtained.

The Group determines the segment report on the basis of the operating segments, and the operating segments, which meets the following conditions, is determined to be a segment report:

- (1) The operating segments accounts for 10% or more of the total income of the division.
- (2) The absolute profit of the segment profit of the segment accounts for 10% or more of the total amount of the total profits of all profit segments or the total amount of all deficit segment losses.

Determined according to the above accounting policy report segment operating division of foreign trade total revenue accounted for the proportion of the total income of the merger does not reach 75%, increase the number of segment reporting, according to the following provisions will not report as Division operating segments into reportable range, until the proportion reached 75%:

- (1) The management department considers that the management division that disclosures the management branch information to the users of the accounting information is determined to be the reporting branch
- (2) Merge the business segment with one or more other business segments which have similar economic characteristics and meet the merger conditions of business segments as a reporting segment

Interdivisional transfer price is determined by market price, and the assets and related expenses shared by different branches are distributed among different segments according to the proportion of income

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XV. OTHER SIGNIFICANT MATTERS (CONTINUED)

#### 6. Segment information (Continued)

##### 2. *The factors for segments' classification and the types of products and services of a segment*

Each segment is a business unit that provides different products and services. Because various business needs different technology and market strategy, the Group independently manages the production and operation activities of each report branch, evaluates its operation result separately, decides to allocate resources to it, evaluates its performance.

The Group has four reporting divisions: Agricultural Machinery, Power Machinery, Finance, and Other Machinery. The Agricultural Machinery Division is responsible for the production and sale of agricultural tractors, harvesters, etc. The power machinery division is mainly responsible for producing and selling diesel engines. The financial branch mainly for the Group subsidiary China group finance limited company, the main business is to handle the member units between the entrusted loans and investment, internal transfer settlement, absorption of member units deposits and other business.

##### 3. *Reporting segment*

Item	Agricultural machinery	Power machinery	Other machinery	Finance service	Elimination among segments	Total
Total operating revenue	5,086,003,402.61	1,299,681,002.95	11,248,602.39	185,431,785.31	-900,817,256.58	5,681,547,536.68
Including: external transaction revenue	4,780,421,144.01	751,083,205.43	9,494,043.82	140,549,143.42	-	5,681,547,536.68
Revenue between segments	305,582,258.60	548,597,797.52	1,754,558.57	44,882,641.89	-900,817,256.58	
Loss of credit impairment	59,929,880.98	1,119,142.47	-11,353,651.17	9,754,532.32		59,449,904.60
Assets impairment loss	200,667,165.60	4,678,399.24	-94,933,444.85	61,981,534.36	-	172,393,654.35
Depreciation and amortization fee	295,540,819.29	52,897,094.24	1,434,803.53	863,429.01	-	350,736,146.07
Total profit	-1,081,156,735.16	-297,929,747.94	646,510.78	63,898,038.68	-208,322.38	-1,314,750,256.02
Income tax expenses	42,706,239.62	-19,241,440.08	-	26,774,468.50	-17,367.79	50,221,900.25
Net profit	-1,123,862,974.78	-278,688,307.86	646,510.78	37,123,570.18	-190,954.59	-1,364,972,156.27
Total assets	10,319,078,758.52	2,593,472,284.86	54,647,802.66	4,235,269,563.23	-4,061,726,653.28	13,140,741,755.99
Total liabilities	6,480,427,557.20	1,072,445,726.45	356,456,426.80	3,424,921,520.44	-2,849,585,245.26	8,484,665,985.63
Other important non-cash items	-	-	-	-	-	
(1) Non-cash expenses other than depreciation and amortization	187,510,834.34	44,483,017.89	7,914,068.15	5,855,081.75		245,763,002.13
(2) Capital expenditure	196,072,692.31	45,853,253.37	-	211,208.30	-	242,137,153.98

The accounting policies of the segments of the Group are the same as those described in the Principal accounting policies and accounting estimates.

#### 7. Other important transactions and matters that have an impact on investors' decision-making

N/A

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

#### 1. Notes receivable and accounts receivable

Item	Ending balance	Beginning balance
Notes receivable	316,179,458.46	246,333,654.83
Accounts receivable	663,935,347.56	1,196,344,093.78
Total	980,114,806.02	1,442,677,748.61

#### (1) Notes receivable

##### a. Classification of notes receivable

Item	Ending balance	Beginning balance
Bank acceptance notes	311,426,182.97	241,280,270.17
Commercial acceptance notes	4,753,275.49	5,053,384.66
Total	316,179,458.46	246,333,654.83

##### b. No notes receivable which have been pledged at the end of the period

##### c. Notes receivable which have been endorsed or discounted but not yet due at the end of the period

Item	Amount de-recognized at the end of the period	Amount not de-recognized at the end of the period
Bank acceptance notes	610,622,126.66	
Commercial acceptance notes	8,443,716.78	
Total	619,065,843.44	

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### 1. Notes receivable and accounts receivable (Continued)

##### (1) Notes receivable (Continued)

- d. Notes that are transferred to accounts receivable by the Group at the end of the term due to the drawer has not fulfilled contract

Item	Amount transferred to accounts receivable at the end of the term
Bank acceptance notes	200,000.00
Total	200,000.00

Note: The above-mentioned notes converted into accounts receivable have been received after maturity.

##### (2) Accounts receivable

- a. Classified disclosure of accounts receivable

Item	Ending Balance				Book value
	Book balance		Provision for bad debt		
	Amount	Ratio (%)	Amount	Accrual Ratio (%)	
Accounts receivable for anticipated credit losses on a portfolio basis	840,612,713.24	100.00	176,677,365.68	21.02	663,935,347.56
Including: Aging portfolio	839,938,820.72	99.92	176,340,419.42	20.99	663,598,401.30
Risk exposure portfolio such as collateral	673,892.52	0.08	336,946.26	50.00	336,946.26
Total	840,612,713.24	-	176,677,365.68	-	663,935,347.56

Item	Beginning balance				Book value
	Book balance		Provision for bad debt		
	Amount	Ratio (%)	Amount	Accrual Ratio (%)	
Accounts receivable for anticipated credit losses on a portfolio basis	1,372,020,598.37	100.00	175,676,504.59	12.80	1,196,344,093.78
Including: Aging portfolio	1,371,346,705.85	99.95	175,339,558.33	12.79	1,196,007,147.52
Risk exposure portfolio such as collateral	673,892.52	0.05	336,946.26	50.00	336,946.26
Total	1,372,020,598.37	-	175,676,504.59	-	1,196,344,093.78

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### 1. Notes receivable and accounts receivable (Continued)

##### (2) Accounts receivable (Continued)

b. Accounts receivable for anticipated credit losses on a portfolio basis

① Aging portfolio

Aging	Ending balance		
	Book balance	Bad debt allowance	Accrual percentage (%)
Within 1 year	668,586,325.15	12,449,962.32	1.86
1-2 years	14,924,076.90	7,462,038.43	50.00
2-3 years	3,060,919.78	3,060,919.78	100.00
Over 3 years	153,367,498.89	153,367,498.89	100.00
Total	<u>839,938,820.72</u>	<u>176,340,419.42</u>	<u>-</u>

② Risk exposure portfolio such as collateral

Name of portfolio	Book balance	Bad debt allowance	Accrual Ratio (%)
Risk exposure portfolio such as collateral	<u>673,892.52</u>	336,946.26	50.00
Total	<u>673,892.52</u>	<u>336,946.26</u>	<u>50.00</u>

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF  
THE PARENT COMPANY (CONTINUED)**

**1. Notes receivable and accounts receivable (Continued)**

**(2) Accounts receivable (Continued)**

*c. Age Disclosure of Accounts Receivable*

Aging	Ending balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	668,586,325.15	12,449,962.32	1.86
1-2 years	14,924,076.90	7,462,038.43	50.00
2-3 years	3,060,919.78	3,060,919.78	100.00
Over 3 years	154,041,391.41	153,704,445.15	99.78
Total	<u>840,612,713.24</u>	<u>176,677,365.68</u>	<u>-</u>

*d. Provision for bad debts charged, recovered or returned in the current period*

Provision for bad debts amounted to RMB1,000,861.09 in the current period.

*e. Top Five Accounts Receivable on the Final Balance Collection by the Debtor*

Company name	Ending balance	Proportion to the ending balance of accounts receivable (%)	Bad debt allowance
Luoyang Changxing Agricultural Machinery Co., Ltd.	397,458,197.19	47.28	7,949,025.61
YTO International Economic and Trade Co., Ltd.	97,660,757.79	11.62	976,607.58
YTO (Luoyang) Harvesting Machinery Co., Ltd.	76,446,864.82	9.09	76,446,864.82
YTO (Luoyang) Diesel Engine Co., Ltd.	41,271,405.14	4.91	453,510.05
Changtuo Agricultural Machinery Equipment Group Co., Ltd.	38,132,408.91	4.54	38,132,408.91
Total	<u>650,969,633.85</u>	<u>77.44</u>	<u>123,958,416.97</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### 2. Other receivables

Item	Ending balance	Beginning balance
Interests receivable	2,909,099.16	19,894,867.06
Dividends receivable	75,294,698.36	96,722,501.47
Other receivables	9,733,081.83	46,805,937.22
Total	87,936,879.35	163,423,305.75

#### (1) Interests receivable

##### Classification of interests receivable

Item	Ending balance	Beginning balance
Fixed deposit	2,702,200.58	19,894,867.06
Loan by mandate	206,898.58	
Others (Lendings to Banks and Other Financial Institutions)		
Total	2,909,099.16	19,894,867.06

#### (2) Dividends receivable

Company name	Ending balance	Beginning balance
Huachen China Machinery Holding Co., Ltd.	75,294,698.36	60,363,340.17
YTO (Luoyang) Diesel Engine Co., Ltd.		36,359,161.30
Total	75,294,698.36	96,722,501.47

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF  
THE PARENT COMPANY (CONTINUED)**

**2. Other receivables (Continued)**

**(3) Other receivables**

Item	Ending Balance				Book value
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Other receivables for anticipated credit losses on a portfolio basis	35,458,808.38	100	25,725,726.55	72.55	9,733,081.83
Including: Aging portfolio	32,808,472.88	92.53	25,699,223.20	78.33	7,109,249.68
Low-risk portfolio	2,650,335.50	7.47	26,503.36	1.00	2,623,832.14
Total	<u>35,458,808.38</u>	<u>-</u>	<u>25,725,726.55</u>	<u>-</u>	<u>9,733,081.83</u>

Item	Beginning balance				Book value
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Other receivables for anticipated credit losses on a portfolio basis	64,593,342.83	100.00	17,787,405.61	27.54	46,805,937.22
Including: Aging portfolio	34,667,794.49	53.67	17,787,405.61	51.31	16,880,388.88
Low-risk portfolio	29,925,548.34	46.33			29,925,548.34
Total	<u>64,593,342.83</u>	<u>-</u>	<u>17,787,405.61</u>	<u>-</u>	<u>46,805,937.22</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### 2. Other receivables (Continued)

##### (3) Other receivables (Continued)

a. Other receivables for anticipated credit losses on a portfolio basis

I. Other receivables with expected credit risk by age combination

Aging	Ending balance		
	Book balance		Bad debt allowance
	Amount	Percentage (%)	
Within 1 year	1,384,656.66	4.22	83,928.67
1-2 years	11,617,043.38	35.41	5,808,521.69
2-3 years	1,980,512.04	6.04	1,980,512.04
Over 3 years	17,826,260.80	54.33	17,826,260.80
Total	32,808,472.88	-	25,699,223.20

II. Other receivables for provision for bad debts using a low-risk portfolio

Portfolio name	Ending balance		
	Book balance		Bad debt allowance
	Amount	Percentage (%)	
Low-risk portfolio	2,650,335.50	1.00	26,503.36
Total	2,650,335.50	1.00	26,503.36

b. Details of accrual, collection or reversal of bad debt allowance

N/A

c. No other receivables actually written off during the year

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### 2. Other receivables (Continued)

##### (3) Other receivables (Continued)

d. Details of top five other receivables with the ending balance classified by the borrowers

Company name	Nature of payment	Ending balance	Aging	Percentage in the ending balance of other receivables (%)	Ending balance of bad debt allowance
Henan Industrial and Information Technology Commission	Government grants receivable	10,000,000.00	1-2 years	28.20	5,000,000.00
YTO Shentong Construction Machinery Co., Ltd.	Intercourse funds	3,494,801.73	1-2years, over 3 years	9.86	3,444,801.73
Jiangsu Qingjiang Tractor Co., Ltd	Others	3,315,484.00	Over 3 years	9.35	3,315,484.00
Luoyang Victory Metal Products Co., Ltd.	Others	1,367,280.02	Within one year	3.86	1,367,280.02
Luoyang Jiangyang Metal Components Co., Ltd.	Others	1,060,000.00	Over 3 years	2.99	1,060,000.00
Total	-	<b>19,237,565.75</b>		<b>54.25</b>	<b>14,187,565.75</b>

e. No other receivables that have been terminated due to the transfer of financial assets

f. There is no assets and liabilities formed by no transfer of other receivables and continued involvement

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### 2. Other receivables (Continued)

##### (3) Other receivables (Continued)

g. Other receivables involving government subsidies

Company name	Name of government subsidy project	Ending balance	Aging	The time, amount and basis expected to be collected
Henan provincial industry and Information Committee	The first (set) major technical equipment award and premium subsidy of Henan Province	10,000,000.00	1-2 years	The results of the review of the first (set) major technical equipment award and premium subsidy funds in Henan stated

Note: The above receivables have been received after the due date.

h. explanation of other receivables: N/A

#### 3. Long-term equity investments

Nature of investments	Ending balance			Beginning balance		
	Book balance	impairment	Book value	Book balance	impairment	Book value
Subsidiaries	2,860,935,823.40	124,788,632.00	2,736,147,191.40	2,842,043,824.40	2,750,000.00	2,839,293,824.40
Joint venture or associates	137,153,321.05	7,004,515.65	130,148,805.40	147,826,932.92	7,004,515.65	140,822,417.27
Total	<u>2,998,089,144.45</u>	<u>131,793,147.65</u>	<u>2,866,295,996.80</u>	<u>2,989,870,757.32</u>	<u>9,754,515.65</u>	<u>2,980,116,241.67</u>

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF  
THE PARENT COMPANY (CONTINUED)**

**3. Long-term equity investments (Continued)**

**(1) Investments in subsidiaries**

Name of the subsidiary	Beginning balance	Increase in this period	Decrease in this period	Ending balance	Provision for impairment	Provision for impairment ending balance
YTO France	496,273,468.97			496,273,468.97		
Luoyang Changhong Trading Co., Ltd	2,750,001.00		2,750,001.00			
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	46,500,046.00			46,500,046.00	46,500,046.00	46,500,046.00
YTO (Xinjiang) Machinery Co., Ltd	160,000,000.00			160,000,000.00		
YTO Heilongjiang Agricultural Machinery Co., Ltd	100,000,000.00			100,000,000.00		
Luoyang Changxing Agricultural Machinery Co., Ltd	2,100,000.00	900,000.00		3,000,000.00	3,000,000.00	3,000,000.00
Yangyang Co., Ltd. (Note)	76,000,000.00			76,000,000.00		
YTO (Luoyang) Transportation Machinery Co., Ltd	52,018,586.00			52,018,586.00	36,038,586.00	36,038,586.00
Huachen China Machinery Holding Co., Ltd.	27,869,301.63			27,869,301.63		
YTO Group Finance Co., Ltd	485,040,302.00			485,040,302.00		
China-Africa Heavy Industry Investment Co., Ltd	55,022,000.00			55,022,000.00		
Luoyang Tractor Research Institute Co., Ltd.	281,414,966.36			281,414,966.36		
YTO (Luoyang) Diesel Engine Co., Ltd	392,257,881.14			392,257,881.14		
YTO (Luoyang) Flag Auto-body Co., Ltd	77,192,767.62			77,192,767.62		
YTO (Luoyang) Fuel Injection Co., Ltd	152,989,481.32			152,989,481.32		
YTO (Luoyang) Foundry Company Limited	200,391,996.60			200,391,996.60		
YTO International Economic and Trade Co., Ltd	75,668,335.13			75,668,335.13		
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	94,250,000.00			94,250,000.00	39,250,000.00	39,250,000.00
YTO Shunxing (Luoyang) Spare Parts Co., Ltd	33,670,762.32			33,670,762.32		
YTO Belarus Technology Co. Ltd.	30,633,928.31	20,742,000.00		51,375,928.31		
Total	2,842,043,824.40	21,642,000.00	2,750,001.00	2,860,935,823.40	124,788,632.00	124,788,632.00

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### 3. Long-term equity investments (Continued)

##### (2) Investments in joint venture and associates

Invested company	Beginning balance	Changes in this period				Adjusted other comprehensive income
		Additional investment	Reduce investment	Profit and loss on investments by rights and interests law		
Associates						
YTO Sichuan Agricultural Equipment Co., Ltd.	841,443.56			-82,126.74		
ZF YTO (Luoyang) axle Co. Ltd.	13,998,0973.71			-10,591,485.13		
Luoyang Fossett auto Limited by Share Ltd	7,004,515.65					
Total	147,826,932.92			-10,673,611.87		

Invested company	Changes in this period				Ending balance	Provision for impairment ending balance
	Changes in other interests	Declaration of cash dividends or profits	Provision for impairment	others		
Associates						
YTO Sichuan Agricultural Equipment Co., Ltd					759,316.82	
ZF YTO (Luoyang) axle Co. Ltd.					129,389,488.58	
Luoyang Fossett auto Limited by Share Ltd					7,004,515.65	7,004,515.65
Total					137,153,321.05	7,004,515.65

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF  
THE PARENT COMPANY (CONTINUED)**

**4. Operating revenue and operating costs**

*(1) Operating revenue and operating costs*

Item	Amount incurred in this period		Amount incurred in last period	
	Income	Cost	Income	Cost
Main business	4,229,642,358.26	4,307,696,815.88	5,234,075,054.70	4,616,304,758.22
Other business	81,082,304.20	10,326,339.78	74,650,940.15	6,935,976.64
	<u>4,310,724,662.46</u>	<u>4,318,023,155.66</u>	<u>5,308,725,994.85</u>	<u>4,623,240,734.86</u>

**5. Investment income**

Item	Amount incurred in this period	Amount incurred in last period
Investment income from long-term equity investments by equity method	-10,673,611.87	-485,404.14
Long-term equity investment earnings calculated by cost method	105,093,698.36	111,902,501.47
Investment income from disposal of long-term equity investments	-31,144,219.79	-11,642,031.37
Investment income from available-for-sale financial assets during the holding period		800,925.00
Investment income from disposal of available-for-sale financial assets		12,648,442.97
Investment income of trading financial assets during the holding period	11,000,000.00	
Investment income from disposal of trading financial assets	-	
Total	<u>74,275,866.70</u>	<u>113,224,433.93</u>

## NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

### XVII. SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

#### 1. Schedule of gain or loss from extraordinary items in this period

Item	Amount in this period	Explanation
Gain or loss on disposal of non-current assets	196,944.39	
Unauthorized or informal approval documents or one-off tax returns and exemptions on tax		
Government subsidy recognized in current profit or loss (except for government subsidies which related to company business that are fixed or quantified based on the national standard)	61,973,166.77	
Capital occupation fees charged to non-financial enterprises in current profit or loss		
Income from the difference between the cost of investment on subsidiaries, associates and joint ventures and the fair value of identifiable net assets of invested entities		
Gain or loss from transferring of non-monetary assets		
Gain or loss from investments under entrust by others or assets under management by others		
Provisions of impairment of assets due to force majeure such as nature disasters		
Gain or loss on debt restructuring	6,036,908.58	
Gain or loss on corporation restructuring, such as expenditures on staff placement and integration costs		
Profit or loss in excess of the portion of the fair value generated from transactions of which the transactional price is obviously unfair		
Current net profit and loss of the subsidiary under the common control from the beginning date to the consolidated date		
Gain or loss from non-related business operations or contingencies		
Profit or loss from changes of the fair value of trading financial assets and trading financial liabilities held and investment income from disposal of trading financial assets and trading financial liabilities and financial assets available for sale, except for hedging related to daily operations of the companies	26,096,432.63	
Reversal of impairment of receivables on individually impairment test		
Gain or loss from entrusted loans to outside parties		
Gain or loss from changes in the fair value of investment properties using the fair value model as a subsequent measurement		
Impact on gain or loss from one-time adjustments on current gain or loss in accordance with the requirement of tax, accounting and other laws and regulations		
Custody income earned from entrusted operation		
Other non-operating income and expenses except for mentioned above	4,899,658.46	
Gain or loss from other extraordinary items		
Less: Income tax	5,218,554.09	
Effects on non-controlling interests (after tax)	4,460,021.31	
	<hr/>	
Total	<u>89,524,535.43</u>	

NOTES TO THE FINANCIAL STATEMENTS OF  
FIRST TRACTOR COMPANY LIMITED (CONTINUED)

**XVII. SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

**2. Return on equity and earnings per share**

Profit in reporting period	Weighted average rate of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to common shareholders of the Group	-27.9135	-1.3188	-1.3188
Net profit attributable to common shareholders of the Group after non-operating profit or loss	-29.8356	-1.4096	-1.4096

**3. Differences in Accounting Data under Domestic and Foreign  
Accounting Standards**

(1) *The difference of net profit and net assets between financial reports disclosed in accordance with overseas HongKong Accounting Standards and China Accounting Standards at the same time*

Region	Net profit attributable to parent company		Net assets	
	Amount in this period	Amount in last period	Ending balance	Beginning balance
China Accounting Standards	-1,300,108,773.92	56,514,222.97	4,656,075,770.36	6,030,492,562.71
Hong Kong Accounting Standards	-1,300,108,773.92	56,514,222.97	4,656,075,770.36	6,030,492,562.71

**4. Others:**

N/A

## DOCUMENTS AVAILABLE FOR INSPECTION

Document available for inspection	The 2018 Annual Report signed by the legal representative of the Company and affixed with the Company seal
Document available for inspection	The 2018 Audited Financial Statements of the Company issued by the accountants
Document available for inspection	The written confirmation and opinion on the 2018 Annual Report of the Company signed by the Directors and senior management of the Company

*Person-in-charge:* **Wu Yong**

The date of approval by the Board for submission: 29 March 2019